LIFE INSURANCE IN INDIA
PERSPECTIVES IN SOCIAL SECURITY

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To
the Future of
INDIA

Foreword

I AM thankful to the learned author for asking me to make a few observations on this volume by way of a foreword. This study is of the principles and practice of life insurance in some considerable depth as a vital element in social security. The author has tried to work out a philosophy of life insurance which, according to him, must inform the policy as well as the people concerned with life insurance in the community. Life insurance is not simply a business proposition; it is not just a question of mobilisation of resources for development. It is a question of the citizen's sense of well-being and sense of security. It provides a link between the present and the future. It is a matter of the socio-economic vision that a society has of its future. Ultimately it becomes the problem of mutuality of trust between the people and their Government.

Early history of the present system of insurance shows that it was introduced here by the British and some Indian pioneers. There were instances of mismanagement in the early years which caused considerable loss to policyholders and thus led to loss of public faith in insurance as an important element in social security. This background is important to formulate policies and strategies.

After nationalisation in 1956 and consolidation, the life insurance business grew rapidly. But vested interests cropped up. The basic principle of good faith in promoting life insurance has always to be safeguarded as this alone would help to earn a greater acceptance of life insurance in the community.

The study not only gives a historical perspective of the functioning of the LIC but the accusing finger of the author

is to its present weaknesses also. For instance, according to him, the LIC appears to lose interest in the policyholders soon after their signing the insurance papers. The LIC also caves in to the onslaught of demands of agents, development officers and others. Slackness in collection of revenue and the deterioration in maintaining the standard of business operations and investment funds have collectively resulted in loss of effective control of expenses.

The author indicates several steps to eliminate what he feels are points of LIC discrimination against small policyholders, those with impaired lives, female lives, those with irregular income, and its neglect of the annuitants' interests. The liberal policy conditions which were in vogue have been curtailed. The substantial loss to policyholders due to forfeiture and lapses, policies not taken up or surrendered, and increased infructuous expenditure, all go to adversely affect the nationalised life insurance business. This is in spite of the fact that attention to these deteriorating conditions has been drawn from time to time through the medium of newspapers and periodicals and even in Parliament and its committees, besides the Administrative Reforms Commission. Somehow the remedial actions have not proved effective enough, as assessed by Dr. Ray.

One way to meet the situation is to set up insurance institutions, as the author suggests, to train actuaries and insurance specialists in the background of changing socio-economic conditions and the growing political consciousness. As he points out the role of women in this field of specialisation is important, for along with the several social activities with which women are increasingly associated in the rural areas and among the not so well-off classes in urban areas, they can combine insurance work also. In any case, training is important not only for improving the system and structure but also for the sensitisation of personnel if the community is to recognise the worth of this socio-economic innovation. The author suggests a second medical examination for the policyholders as it opens up avenues of employment for medical practitioners all over the country, thus helping to implement the Government plans to settle doctors in rural areas. The only caution here is that it should not add to the

economic burden of the policyholders. Another suggestion is the interfacing of banks and insurance offices, to sell and service insurance policies and grant loans. Extension of credit to policyholders for purchase of agricultural inputs such as fertilisers, seeds, agricultural implements and tractors and equipments for cottage industries and for marketing farm products will also fall in line. Such interfacing will, besides, facilitate direct credit of premiums to a special account of the Central Government. Some of these suggestions need serious consideration so that the concept of life insurance becomes an integral part of the overall social life.

Introduction of modern scientific methods and equipments to save space, protection of records against fire and damage, issuance of insurance policies as certificates and printing of policy conditions separately, prompt attention to queries and prompt settlement of claims—all these merit serious consideration as a management approach to LIC working on more scientific lines.

A Self-liquidating Revolving Rural Development Fund can go to accelerate rural development activities already initiated. And it will have the added advantage of creating gainful employment opportunities in the wide-spread rural field and thus reduce the urban pull for the unemployed. Here the author has raised an issue for the policy makers to probe from the angle of operational effectiveness.

The author suggests encouragement to salary savings, non-medical schemes, direct policies, group insurance, etc., to rapidly spread insurance benefits at a low cost. He advocates that annuities merit a more serious attention for mobilising resources and for benefiting annuitants in their retired life notwithstanding fluctuations in the value of money. The special policies that he suggests to encourage family planning, covering special groups of people, term insurance for all adult persons, etc., will certainly attract wide attention.

The insurance law should change not only to keep pace with the changing conditions but also anticipating future requirements. Elimination of the offer and acceptance of rebate, valuation of assets and liabilities by a team of actuaries, periodical review of the channels of investments of the rapidly increasing fund of over Rs. 6,000 million a year, and

the possibility of this multiplying many times over in the coming years, making the State's 'insurable interest' in the lives of citizens' explicit, declaring policies as 'indisputable' at the end of five years, settlement of disputed claims by tribunals, issuance of policies in regional languages, prompt publication of all insurance activities, or at least the availability of such information and publications in one place, use of the five per cent government share of valuation surplus to encourage the growth of life insurance and similar other suggestions made in the book ought to be studied and examined in the light of their implications.

The author feels that to get the full advantage of nationalisation of insurance well within the next two decades, the elimination of shortcomings, improvements in operational factors, regulation of collection of premiums and their deployment in specific fields by specialised organisations, as prescribed by state policy, should be undertaken. The spirit of cooperation and service, interdependence of man, and the cohesive basis of society will then be strengthened. This objective can be well supported not only by spreading the gospel of insurance through socio-economic publications, studies, etc., but also by encouraging insurance journals in regional languages, to help form better understanding and a greater awareness of the purpose, policies and processes of life insurance in the country.

This broad survey will arouse interest not only among the large number of policyholders and persons engaged and interested in Indian insurance business but also among several others such as legislators, administrators, economic journalists, educationists, sociologists, students of business management, lawyers, bankers and publicists who all agree that life insurance plays an important role in individual lives as also in providing social security and all round development of the State.

Undoubtedly Dr. Ray has raised a number of issues and made a large number of suggestions. In a way, he has brought the entire promotion of life insurance into a wider socio-economic focus and he has tried to relate it to the emerging perspectives in the country. Naturally the volume bears the imprint of his scholarship as well as his deep

association with the operational problems. Of course, there can be no unanimity either in the diagnosis of the situation or in the prescriptions, made by the author. But there is penetrating logic in his suggestions which should generate a lively debate among the knowledgeable people and professional groups as to how life insurance can be made more and more socially relevant and also a satisfying experience for the citizen. This is an area which has been well explored here in all its dimensions. This volume is, therefore, most welcome.

I commend this volume for the author's freshness of approach, his social concern and his insight into the practical issues in the field of life insurance which is of growing significance to the citizens of this developing country.

T. N. CHATURVEDI
Director
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PUBLIC ADMINISTRATION

SEPTEMBER 1, 1981
NEW DELHI

Preface

EVERY individual desires security for self and dependents. This urge is to be accommodated within the larger frame of society's security. State's obligation to all its citizens and the responsibility of Government to frame and regulate welfare schemes are provided for in the Constitution.

During the second-half of December, 1954, the Lok Sabha accepted the objectives of a socialistic pattern of society. Franchise (voting rights) have been extended to all adults to make India world's single largest democracy.

The Government took over the conduct of life insurance business with the avowed objective to extend insurance benefits, and, *inter alia*, utilise profitably the premiums collected for nation-building activities which benefit the citizens, wherever they may be.

Insurance protection is to be extended to all who need it, even if, for the time being, they cannot purchase it. It will mean extending helping hand to less fortunate so that the functional basis of society is sustained without large scale upheavals or disturbances. This will be a recognition of the economic value of man in society. 'Insurable interest' of the State in the lives of its citizens is, therefore, to be made *explicit* in the insurance laws. Life insurance has a major role to perform to attain universal social security and assist in creation of productive employment opportunities for all early.

In the insurance set-up the policyholder is the main central figure and all other interests in the conduct of business are subordinate.

A review of activities since nationalisation brings out many strong and weak points. Correctives have, therefore.

been suggested. Study of theory and practice of insurance in the background of Indian conditions, in insurance institutes and in the universities; encouragement to insurance journals; interfacing of insurance and banking; recasting of insurance laws; review of investment policy; procedural changes in conduct of business; advances towards prompt settlement of claims; greater awareness of the social purpose of insurance; briefly these are essential to provide a broad infrastructure for rapid and solid growth of insurance.

So far only a small percentage of the work-force in the urban areas has come under the protective umbrella of life insurance. Shortcomings in the operational factors and heavy expenses incurred in conducting the business have discouraged development of insurance. These have to be curtailed. Rapid spread and growth of insurance along with other steps, will help create employment opportunities. Lack (or absence) of gainful opportunities for the potential work-force put out of gear all steps taken for an integrated development of society.

As a Visiting Fellow of the Indian Institute of Advanced Study, Rashtrapati Niwas, Simla, during the terms of 1974-77, the author acknowledges the assistance received to study the problems of insurance in the existing set-up of society, cooperation obtained from the Director, Prof. S.C. Dube, contemporary colleagues and the staff therein. The author also thanks Director, Prof. B.B. Lal, for permitting to stay at the Institute and providing secretarial assistance during the winter term, 1977-78.

The author records his appreciation to Shri N.R. Gopalakrishnan and his team-mates for the detailed attention and care given by them at all stages to expedite publication of this study.

The Director of the Indian Institute of Public Administration, Shri T.N. Chaturvedi, an eminent scholar and administrator gave valuable suggestions. The undersigned acknowledges gratefully all the assistance received from him, which has made publication of this study possible.

Significance of the subject is apparent from the sectional treatment and signs are multiplying that the subject of insurance will receive considerable attention now so that its bene-

fits also spread rapidly amongst the working class and amongst socially and economically weak strata of society, in rural and urban areas, and even beyond the boundaries of India.

To redeem the pledge at the time of nationalisation, many action-oriented steps are necessary to extend the protection and benefits of life insurance, as a measure of social security, to compass all eligible citizens well within the next two decades.

I trust this study will arouse interest amongst those who have the urge to examine, explore means and forms to benefit fellow country-men through organised co-operative efforts.

JULY 12, 1981 RAM MOHAN RAY

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The author will appreciate if his attention is drawn to any inaccuracies or shortcomings in the book which will be duly acknowledged.

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Introduction

MAN is physically unfit to live apart from his fellowmen. This was true in the past and is also true in the present times.

Life has always been an uncertain thing. To be secure against unpleasent possibilities, has always required the utmost resourcefulness and foresight on the part of man.

In India, the 'Biradari' (बिरादरी) the community and the joint family system provided immediate help and sustenance to a bereaved family on the occasion of death. The shock and financial loss of misfortune 'Bura Din' (बुरा दिन) was mitigated, thus strengthening the bonds of homogeneity.

Similar contributions were made, when an invitation 'Neota' (न्यौता), was received to celebrate happy occasions such as marriages or other social events.

The system still continues but is waning because of the impact of modern thought as a consequence of industrial growth and the breakdown of joint family system. Individuals endeavour to provide for all eventualities against risks to life as well as loss to property by accumulation of wealth. It was, however, realised that individual efforts were not adequate in the changing circumstances and thus the modern concept of insurance slowly emerged. The basic idea of insurance is a contribution by individuals to a communal fund so that in case of exigency they should obtain reciprocal benefits. In other words no human life can be lived alone. The will to live finds intelligent expression in 'Insurance' and its rapid growth and is a persistent evidence of human interdependence of man's great need of man.

The business of insurance is to guarantee compensation in the event of loss, damage to property, or death. The premium paid by the insured is the price for such protection.

The present day insurance, or the protection as provided

by the Life Insurance Corporation or other agencies doing business pertaining to life, has as its basic concept that the individuals or groups seeking protection must earn a surplus over the cost of maintaining himself and then pay a premium out of the income. For this purpose the business of insurance is based on a mutual and basic desire to protect the loss of one's property and loss due to death of an individual. Briefly, insurance is based on the following concepts:

(*a*) The ever present desire amongst the individuals to ensure the continuity of their standard of living for themselves, and their dependents by providing continuity of income and owning one's own residential accommodation.

(*b*) Involvement of large numbers to ensure the above desire in mutual agreement.

(*c*) The law of probability that, whilst individual loss due to death cannot be predicted with exactitude as to when and to whom it may befall, it can be reasonably forecast that such losses will accrue amongst the members of the group with a fair degree of certainty.

(*d*) The premium rates for the different kinds of risks were determined with a view to cover adequately the losses occurring within a specified period of time. In the case of hazards to properties and belongings, the period is, generally, one year; and in the case of life, the period may be as short as time taken for a journey or a year or several years.

(*e*) The premium takes the above into consideration. It includes an element of loading or addition which provides for the cost of administration and other fine points or frills. Further, small additions to the premium are also made which entitles the policyholders to participate in the valuation surplus.

(*f*) The terms and conditions enumerated in the policy govern the contract between the individual or a group on the one hand and the company or a corporation on the other. The contract is evidenced

Insurance in all its facets is a highly specialised business. It is broadly dividedin groups: (1) Life Insurance, (2) General Insurance, which is further sub-divided in fire, marine and accident insurance. The organisational set-up, method of conducting business, etc., has developed distinctive features in different countries.

This study is primarily confined to 'life insurance business in India', as a factor in social security, since nationalisation.

To cover the risk of large numbers of policyholders scattered throughout the country, requires a vast network of various offices with their division of responsibilities to seek new business, control them and settle the claims. A number of canvassers or agents and their supervisors are also attached to each of these offices. The management and control of such offices in the field, zones or the head office has become a very specialised one. With the expansion of the business the impersonality of dealings between the policyholders and the offices is on the increase.

Various aspects of the life insurance business have been discussed in appropriate places, including organisational changes necessary, ways and means to ensure rapid growth, lower expenses of management, securing the confidence of and provide for better service to policyholders and utilising the funds accruing to the 'life fund', as a catalytic agent, for all round development of the natural resources.

PRINCIPLE OF LIFE INSURANCE AND FACTORS OF PREMIUM

The present eminent position of life insurance in the world of business and social affairs has been evolved in Britain over a long period of time. This heritage was accepted by America and with their usual energy and enterprise they developed the business of insurance into gigantic proportions. The caution of the British and the enterprise of the Americans have resulted in the development of some of the biggest financial institutions which provide security through prevailing business methods.

In India, the present system of life insurance came as a ready-made product. The increasing activities of the English in the country since the beginning of the 19th century

brought along with it the 'insurance' as practised in UK. All policies were issued on the lives of Europeans and in sterling currency. After gaining experience over several years some of those insurance companies decided, haltingly, to extend their business to include very selected Indian lives who had to be pleased because of their influence in the business world and/or who had adopted the western mode of living.

The business of life insurance in India, in its present form, is a contribution of the British. The principles of insurance and their application followed the framework of thinking in UK. The benefit of life insurance is extended only to those who have an income, *i.e.*, those who are employed or otherwise, and after providing adequately for their own and their dependants have a surplus, with which they buy life insurance protection, so as to ensure that, in case the bread-winner dies, the estate will be safeguarded and the continuity of income will be maintained.

Now we will discuss the basic principles of insurance that governed and even today govern the operations of the life insurance business.

The most vital requisite in life insurance is the ability to predict the chances of mortality with the help of what are known as mortality tables. The assumption is that under similar circumstances the future will repeat the past in its essentials. James Bernouillie's 'Theorem of Large Numbers' enunciated two propositions:

1. That the probability of events happening in numbers proportionate to their respective chances in a single trial is greater, the greater the number of trials and observations.
2. The number of observations or experiments may be so determined that the probability of events happening in numbers within any specified limits of deviation from the proportion just mentioned, however narrowly those limits may be fixed, approach to certainty as closely as may be desired.

Putting these into other words, the theory of probabilities consists simply of good sense reduced to a system of calculation.

Due to advances and improvements in living and working conditions, the average duration of life as well as the working span of life is increasing. The insurance business, however, adheres to the rates of mortality determined earlier, as the difference is favourable to it. The anticipated increase in longevity is, however, taken into consideration at the time of calculation of premiums for annuity. In this manner life insurance business provides a safe factor for its continuing operations.

It is true that there may be 'runs of luck' as, when tossing a coin; so in life insurance there may be an unusual number of deaths within a short period or the number of deaths may be far below than what is expected, and provided for. The abnormal experiences will, however, balance one another. The practical effect of this in life insurance is that the amount paid to the representatives of those who die early are made good out of the contributions of those who live long. As death cannot be forecast, people try to neutralise the individual irregularity of death by providing for the aggregate regularity. This brings out the mutuality of interests of all the insured people and life insurance has been conceptualised in contracts of policies, which is an evidence and basis of life insurance business.

Broadly speaking, climatic conditions and diseases have an effect on longevity. Minor factors such as occupation can influence longevity. Insurance companies prefer a homogeneous group, so that the mortality experience of such a group is contained within specified limits. The diseased or those below a certain standard of physical fitness are also accepted either by charging them extra premiums or modifying the terms and conditions of policy such as providing for a lien on the sum assured payable in case death takes place in the first few years. Reference to any mortality table will show that the rate of mortality increases with the age.

Neglecting interest and loading, to which reference will be made later, the mortality rate becomes the natural premium for a temporary assurance of rupee one for one year. This principle is used in 'assessmentism'. It is attractive, but the scheme collapses as the mortality rate tends to increase amongst the surviving participants thereby increasing annual

levies or reducing expected benefits. This deters other intending proponents to join the scheme and even the existing members who are in good health lapse their policies. The remaining members are called upon to pay higher 'calls' which sometimes become prohibitive to members in advanced age resulting in their failure to pay and consequently the scheme collapses.

Life insurance business is conducted by charging level premiums as contrasted with natural premiums.

The level premium is simply the present value of the natural premium distributed into equalised annual instalments throughout the duration of the period of contract.

It is obvious that the level premium is more than adequate to cover the risk in the early stages, and a surplus develops which is accumulated into a fund called the 'reserve' or 'life fund'. This is utilised to pay the excess claims over the natural premiums in future. Incidentally, the 'surplus' or 'reserve', justified payment of a part as surrender value if a policy is discontinued. It also enabled the system of loan within the 'surrender value' to operate in respect of a continuing policy.

At the present time, the cost of procuration and maintenance of business, *i.e.*, agency commission, office maintenance, medical fees, stamp duties, publicity charges, expenses on investments, provision for losses and reserves for future contingencies take a large slice out of the income, and the balance constitutes the 'life fund'. Control of all these factors is, therefore, of immense interest to the policyholders as this would increase the security and profitability of their policies.

Policyholders are also interested in the conservation and proper investment of the life fund to earn good returns so that larger surplus are declared in each valuation. This will get them higher rates of bonus and surrender values for their policies.

With the rapid expansion of business the 'reserve' also expands rapidly as the reserve is not called upon to meet the claims immediately, and, with the rapid increase in business, the claims continue to be met from the increasing current

revenues. Thus, the reserve funds become available for investments. The interest, or rather, the compound interest which is earned in course of time becomes substantial and is also taken into account for calculating level premiums and thus, theoretically, lower premiums are to be paid by the policyholders. The problem of interest/compound interest rate, has been taken up later.

In the early stages of the insurance business, the societies were either mutual in character, whence, the entire profits were for the benefit of policyholders, or proprietary, in which case the portion of the profits for the shareholders was limited. It is also interesting to note that expenses were strictly limited and commission was not paid for introducing the business and, if at all, was paid on a very low scale.

Later on, promoters and shareholders sensed a means of earning an income out of the life insurance business, particularly through the use of the life insurance fund.

To cover the expenses, a 'loading' or addition to the net level premium, calculated on the basis of an approved mortality table and reasonable interest rate, was made. Earlier about 5 per cent addition to the net level premium was adequate. In the course of time it has increased substantially to cover expenses and profits. The expenses of paid middlemen or agents, the use of bigger and imposing offices to house larger number of employees and officials, and the necessity to maintain a variety of account books and ledgers increased, and this aspect of growth itself caused additional problems. The desire of companies to attract business by providing extra benefits under special policies need creation of additional contingent reserves. The rush for new business resulted in higher cost of procurement, as development officers and agents were pressurised and offered additional inducements to underwrite larger volumes of business. A large volume of business became synonymous with progress. Lapses naturally followed when the proposers who had accepted the policies under pressure, considered the pros and cons at leisure. They discontinued further payments to avoid being saddled by unsuited policies or payment of heavy premiums. The cumulative effect of all these changes is that the net cost of insurance and the level premium have slowly tended to rise.

Where favourable mortality experience and higher interest rate justified a rethinking of lowering of premium rates, the proposition was postponed or not considered at all because the resultant savings went to cover expenses additional to those provided in the initial loading.

The policy conditions similarly developed from relative insignificance. Some of the conditions appear to have been taken advantage of to delay, postpone or deny the claims. One wonders whether the unusually heavy expense has any contributory influence in such a development, as otherwise, the unsatisfactory nature of business transactions may come up to the surface and become apparent.

The above is a rapid review of the principles and a reference to the basis of the present day system of determining the various factors of premium, procurement of business, management and settlement of claims.

EARLY REFERENCES TO INSURANCE IN INDIA

Sporadic attempts were made in India by the British settlers to introduce the modern life insurance system, which commenced in England, primarily for the benefit of their own community. The early insurance companies in India issued policies in sterling on the lives of Europeans who were engaged in the services of the East India Company and later on those of the Government of India. Indian lives were considered as sub-standard for insurance and, therefore, not accepted. However, several eminent Indians were associated with the functioning of such companies as directors, presumbly because such companies were partnership concerns and the rich Indian businessmen provided funds. We come across the name 'Calcutta Laudable Society' which was the first of the series, and which was founded on new year's day, 1795. Several series of the Calcutta Laudable Society were set up from time to time. There is a reference that in July 1, 1835 the 7th Calcutta Laudable Society was reorganised and amalgamated with the '13th Supplementary Laudable Society' to form the new 'Calcutta Laudable Society'. Dwarkanath Tagore was its only Indian director.

Dwarkanath was more intimately connected with the 'Oriental Insurance Company' which was started in 1818 in

Calcutta, mainly by Europeans, which as an insurance company was much more important than the 'Calcutta Laudable Society'. The 'Oriental' was not a 'limited' company of the modern kind. It was a partnership concern. The partners were Dwarkanath Tagore and a few other important merchants. Dwarkanath remained a partner when the company was reorganised in 1829. Later, in 1833, after the disastrous failures of a number of big firms we find Dwarkanath, as a partner of means, looking after the company's affairs. Eventually this company failed in 1834 and was transformed into the 'New Oriental'. An item in the 'Englishman' of November 13, 1835 shows Dwarkanath and four of his relatives amongst the Indian and European shareholders of the 'New Oriental'[1].

It was through the efforts of Babu Muttylal Seal that the company (New Oriental) was prevailed upon to accept Indian lives. Since then Indian enterprise made very good progress in Bengal and leading people of the province such as Dwarkanath, Ramtanu Lahiri and Rustamji Cawasji took an active part in the development of the insurance business in this country. It was also left to a great reformer and eminent son of Bengal, Raja Ram Mohan Roy, to direct the nation's attention to the need for protection of widows and orphans, and as early as 1822 he issued an appeal through the columns of the *Calcutta Journal* requesting the wealthy Hindus of Calcutta to start an institution for the maintenance of the poor widows[2].

We also find a reference to the 'New Oriental' company in the insurance encyclopaedia by Walford published in 1872-80.

The failure of two very prominent and large insurance companies, the Albert Life Assurance Company and the European Life Assurance Company, which had extensive connections in India, gave rude shock to the Indian policyholders who lost considerable sums of money along with the

[1] *See* Amritomoy Mookherji in *The Samakalin*, Aswin 1371 B.S., 1964.

[2] From the statement made by Shri N.R. Sarkar, Chairman of the Reception Committee, to the Indian Insurance Conference held in Calcutta in 1937.

English policyholders. It is distressing to note that the failure followed almost immediately after the actuary's report that one of the society was in a prosperous condition.

The two (new) insurance companies that were organised and commenced their business were the Bombay Mutual Life Assurance Society and the Oriental Government Security Life Assurance Company Ltd. Both these companies continued to be in the forefront of Indian insurance business till the entire life insurance business carried on by Indian and foreign companies was taken over as controlled business in January, 1956. This step towards nationalisation followed the exposure of a few glaring cases of mismanagement, fraud, misuse of life fund and other unethical practices of some of the companies which jeopardised the interests of their policyholders.

The early history of life insurance in India was marked by a constant struggle by Indian companies against the superior resources and earning abilities of foreign offices.

Brief references are being made below to highlight the steps taken by the pioneers of Indian insurance to safeguard the interest of their members and policyholders.

The first article of association of the Bombay Mutual Life Assurance Society (1871) says:

> All the affairs and every transaction of the Society must be open to the most minute inspection of every member. Each member may take part in management. *Business to be conducted with strictest economy.* All profits that may accrue must be awarded exclusively to those whose contributions have caused them and to each in due proportion of his contribution.

The first Hon. Secretary and Treasurer of Bombay Mutual Life Assurance Society was Mr. G.A. Summers. In his first speech to the members of the Society, he said:

> The recent sad failures have taught a wholesome lesson; for they have had the effect of making the public very properly pause and reflect when they have met with such

announcements as 'Extraordinary Bonuses', 'Special Privileges', 'Peculiar Features', etc. They do very well for ingenious advertisements or prettily got up little show-cards with Almanac attached, but fortunately with past experience so prominently before us there are few thoughtful men who will venture on a life-long bargain with any assurance office until they have satisfied themselves by first comparing the glowing promises of the prospectus with the figures of the balance sheets. Government may do something to protect the unwary, but the real safeguard of the assurer is in his own hands, if he will only take the precaution never to entrust his money to the keeping of an office which denies him the liberty of examining its accounts and then judging for himself. Only recently we have read of the failure of one of these institutions, which has been the cause of widespread beggary and misery, *a failure too, which almost immediately followed the Actuary's report that the society was in a prosperous condition.*

The extract from the Jubilee Pamphlet (1874-1924) of the Oriental Government Security Life Assurance Company Ltd. relating to its original articles of association is of interest and is quoted below:

> *Having regard as a first consideration to the interest of policyholders*, certain definite and original rules were formulated to remedy the defects thought to exist in the methods of European companies already at work in the country. Thus in addition to providing policyholders with a controlling interest, provisions were made in the constitution of the company, strictly prohibiting amalgamations and furnishing the highest order or security for its engagements; giving a fixed monetary value for every premium paid, by investing 80 per cent thereof in Government securities in trust for policyholders as their sole property to meet payment of claims; by shareholders appointing their own trustees, auditors and consulting actuary to protect their interests; by funds being invested in Government securities only, and remaining in

India, so as to afford absolute safety to both shareholders and policyholders.

The next period of 20 years saw the establishment of mostly mutual companies to promote the benefit of sectarian communities such as Christians, Zoroastrians and Hindus. It is gleaned from the reports of these companies that their working was on a very economical basis, largely due to the honorary service of office bearers and generally speaking, the absence of agents.

The following extract from a pamphlet 'A Retrospect' published in 1918 to celebrate the silver jubilee of the Indian Life Assurance Company Ltd. of Karachi (1892) states:

> The formation of the company was the outcome of a scheme for organising a Mutual Aid Association, a form of insurance which was very popular at the time. A careful examination of the subject, however, revealed the very unsatisfactory nature of the assessment principle on which such institutions are based, and the idea was therefore abandoned in favour of an insurance company on actuarial basis.
>
> The chief difficulty experienced was the absence of suitable tables for Indian lives. It was finally decided to adopt the Northampton Mortality basis, but as the various tables required to calculate the premiums, etc., were not readily available, these had to be worked out, with an incredible amount of labour, which was cheerfully undertaken by Mr. L.C. Duarte with whom the idea of the formation of the company had originated and who so successfully developed it . . .

It is interesting to note that the Bharat Insurance Company (1896) granted a reduction in premiums if a policy was absolutely assigned to charitable Institutions.

The Empire of India Life Assurance Company Ltd., established in 1897, developed a reputation for a sound financial position due to the careful selection of lives, and to the conservative methods adopted in the procurement of new

business, in preference to extravagant expenditure in attempting to underwrite large volumes of business.

The swadeshi movement, consequent on the partition of Bengal in 1905, led to the realisation of the enormous grip which foreign interests had on the economic life of India in trade, commerce and industry. This gave a fillip to the development of Indian insurance companies and several sound Indian companies were promoted during 1906 and 1908.

The success of these companies tempted the inevitable company promoters to take advantage of the swadeshi movement and several concerns were floated which were financially unsound. The natural corollary to this was that some of these unsound companies failed.

The Insurance Act of 1912 and the Provident Insurance Act of 1912 were then passed. One of the results of the Insurance Act was that some English companies ceased to write further business with a view to avoid submission of reports to the Government of India.

Several of the Indian companies which had conducted schemes based on the principles of 'Assessmentism' or on acturially unsound basis had to drop them or modify them to conform to acturial requirements.

Similarly, the Indian companies which were paying dividends to their shareholders irrespective of whether the business was profitable or not, were stopped from declaring dividends, except out of actuarially ascertained surplus.

All companies had to submit certain returns in a scheduled form and they were published under the authority of the Government of India. The first of these "Statements of Accounts and Abstracts of Actuarial Reports" in respect of Insurance companies was published in 1914. This was the precursor of the Insurance Year Book with which all persons connected with the Insurance business are familiar.

The commencement of the World War I in 1914 adversely affected the insurance business due to the prevalent uncertainties and *depreciation of stock exchange securities*. The new business underwritten by all the companies reached the lowest figure of Rs. 175 lakhs (17.5 million) in 1916. The importance of the war risk cover for the insured in respect of their life policies became obvious. When there is no anticipation of

any war, the war risk is covered on payment of a slight extra premium in times of peace. Otherwise the companies demand a large extra premium from those who want war risk to be covered on their existing policies or on their new policies.

It must, however, be mentioned here that practically all English companies granted war risk cover without charging extra premium to all their civilian policyholders who had insured prior to the commencement of the war and volunteered their services. Some of the Indian companies also agreed to do so.

The mortality experience of the Indian companies showed no untoward increase. This was because the insurance companies (foreign and Indian) by and large confined themselves to soliciting life insurance business in cities and urban areas. However, the claims ratio of the Indian companies were affected by the unusually severe influenza epidemic tnat followed the war in 1918.

With the depreciation of the assets, it was the conservative companies that came out successfully from these adverse factors. Some, however, reduced their bonuses considerably.

The end of the war, however, saw the floatation of several large insurance companies. The non-cooperation movement again created a strong nationalist feeling and helped the companies to underwrite substantial business and created a strong financial position. This necessarily attracted new entrepreneurs to set up more companies. The advent of a large number of companies resulted in the forcing up of expenses to un-economic levels in their efforts to underwrite new business.

Leading insurance personalities set up Indian Life Assurance Association in 1927 and in their very first annual conference held in Bombay in 1928 under the chairmanship of late Sir Nowrojee Saklatwalla drew attention to the payment of unduly high rates of commission and granting of rebates.

National consciousness was further strengthened as a result of the civil disobedience movement in 1930, and helped the Indian companies to secure large volumes of business.

This also resulted in the setting up of new companies

many of which went into liquidation within a short period of time.

Due to pressure from commercial and insurance bodies, the Government of India passed the new Insurance Act of 1938, which came into force from July 1, 1939 except for a few sections, which also became effective from January 1, 1940.

World War II, because of its uncertain outcome and unsettled conditions affected life insurance business. Indian companies prescribed heavy extra premiums to cover 'war risk'. The usual extra charge was Rs. 50 per thousand sum assured for the duration of the war.

It may be mentioned that foreign companies, out of patriotic motives, covered their existing policyholders against the usual war risks without any payment of extra premiums.

A scheme to insure members of the armed forces, was drawn up by the author, which was agreed, in principle, to be implemented by two premier Indian insurance companies, namely, the Oriental Government Security Life Insurance Company and New India Assurance Company Ltd., Bombay.

This was put before the Director of Resettlement and Employment for training and resettlement of demobbed service men at the end of the war. It could not be proceeded with further for reasons quoted below:

> . . . I am afraid *I do not consider there is a need for such a scheme among I.O. Rs.—who would not care to a long term investment of this kind. They do not come from a class which under present conditions is ever likely to invest in life assurance.*
>
> Sd/..................I.C.S.
> D.F.A.

It is, however, interesting to note that since 1949 the post office insurance fund extended its facilities to members of the defence services and also covered the war risk, at no extra charges to the defence personnel. The extra premium to cover the extra risk involved in their cases, namely, risks arising from service on the high seas, risks of war and risks of aviations

and all risks to life taken by the insured in the performance of their duties as members of armed forces, was paid from the defence services estimates at mutually agreed rates.

At the time of periodical valuations of the fund, the extent of extra strain on account of claims arising from 'duty deaths' was assessed by the actuaries and a corresponding amount was transferred to the insurance fund from 'The Extra Premium Fund'. Claim of this extra premium from the defence estimate on individual policies as a regular measure has been stopped from April 1, 1965, the reason being that the balance at credit of 'The Extra Premium Fund' became substantially unutilised. It is now treated as 'Advance on Account' from the defence estimate.

It is understood that the interest on this fund is now more than adequate to meet the extra 'duty deaths' of the members of the defence forces insured with postal life over and above the normal expectations. The extra fund now exceeds Rs. 170,00,000 as on March 31, 1979.

At the conclusion of the war, the Indian insurance companies took stock of the situation and were planning rapid expansion of their business. These calculations were upset because of the partition of India and the unforeseen disturbances that took place. However, the Indian companies took various steps to safeguard the interests of the policyholders and gave them several concessions so that the protection of the policies continued to be available to the insured even when payments of premiums were in arrears and/or the policy records were not readily available.

The insurance companies also took steps to expand their business.

New business showed a spectacular rise in 1954-55 because of several causes:

(*i*) Reduction of premiums by leading life offices.

(*ii*) Introduction of staff insurance schemes offering very low rates to employees of established business houses.

(*iii*) Enactment of the Estate Duty Act enabling owners of large estates to utilise life insurance policies for

reducing the liability under the Estate Duty Act and making provision for the payment of estate duties.

But still by the end of 1955 life insurance touched only a fringe of the urban population. The immense benefits of modern concepts of life insurance remained largely unknown to large sections of the people and thus the country did not derive full benefit from the system.

The shortcomings noticed in the insurance business were due to the unscrupulous business practices of some insurance business magnates. The funds of life insurance companies were jeopardised by doubtful dealings such as:

(*i*) Buying and selling of investments needlessly.

(*ii*) Buying at prices higher than the market price and selling at prices lower than the market price.

(*iii*) Buying and selling to oblige others.

(*iv*) Granting loans on inadequate security, either personal or mortgaged.

(*v*) This was also a period of severe competition amongst life insurance companies. As a result of this intense competition, insurers began, in addition to appointing more inspectors, creating other classes of intermediaries under a variety of designations, which were directly related to the volume of new business which they helped to secure.

Reduction of remuneration and termination of service of persons who failed to fulfil pre-determined quota of new business and subsequent re-appointment of such workers on the same or revised and reduced terms were fairly common.

(*vi*) Many insurers made appointments on what were termed 'pro-rata basis'. The remuneration was strictly proportional to the actual business procured by them and these appointments were, therefore, nothing more than special agency appointments but on higher rates of remuneration than were permitted by the Insurance Act, and as such were illegal appointments.

(*vii*) Further the record of some Indian insurers with

regard to their agency force and expenses was far from satisfactory.

(*viii*) Twenty-five companies went into liquidation since the Insurance Act of 1938 came into force and a like number had so frittered away their resources that their business had to be transferred to other companies at a loss to the policyholders.

(*ix*) Apart from the loss to the policyholder the investment practices of insurers raised the fundamental issue as to how far it was prudent to permit concentration of economic power in such hands.

The Insurance Act of 1938 was enacted to regulate and to check the malpractices of the insurers. During the course of the following 18 years it was amended ten times to make its provisions tighter. The desired aim was, however, never quite achieved.

Shri C.D. Deshmukh, then Finance Minister, lamented, *We had not reckoned with the ingenuity of some of the insurance management.**

Legislative control was tried long enough and it would have been difficult to justify persisting with it any longer whilst the interests of policyholders suffered. Hence nationalisation was resorted to.

The Government of India issued an ordinance on January 19, 1956. It took under government management and control all life insurance companies, Indian as well as foreign, doing business in India.

Shri C.D. Deshmukh, then Finance Minister, made a radio broadcast on the same day justifying the step taken. A copy of the broadcast which is a well reasoned pronouncement is given in Appendix 1.

Speaking on the occasion of the nationalisation of life insurance, in the parliament, Prime Minister Jawaharlal Nehru summed up his views as follows:

> The nationalisation of life insurance is an important step in our march towards a socialist society. Its objective will be to serve the individual as well as the State.
> We require life insurance to spread rapidly all over the country and to bring a measure of security to our people.

2

Nationalised Life Insurance—Consolidation

THE first preparatory step towards nationalisation of life insurance was taken on January 19, 1956 by the promulgation of the Life Insurance (Emergency Provisions) Ordinance, 1956.[1] In terms of this Ordinance, the management of the 'controlled business' of insurers was vested in the central government. The Central Government appointed their nominees, mainly drawn from the ranks of senior officers of insurance companies, as custodians to take charge of the management of most of the companies. The custodians functioned under the direction and control of the government. In the case of other insurers, the old management continued to be in charge but as agents of the Central Government, control being exercised through authorised persons who were officers of the Central Government.

While the Ordinance vested their management in the Central Government, in law the insurers continued to retain their separate identities. Immediate merger of the various units was thus precluded, but even during this period of management, the Central Government introduced several standard practices such as uniform premium rates, uniform agency conditions, uniform terms to pro-rata workers, etc.

The period between January 19, 1956 and August 31, 1956 was also utilised as a period of preparation to facilitate the subsequent integration of the various insurers into a single State-owned Corporation. Statistics were collected in regard to a variety of matters like number of officers, salaried field staff and other employees, their pay scales and other terms of service, number of agents, number of branches and

other offices and the availability of office accommodation and equipment at various places in the country. Other preliminary work related to the devising of an organisational structure for the Corporation. Detailed manuals for maintenance of accounts and for administrative and underwriting procedures, were drawn up and the functions of the various offices of the Corporation were delineated. Draft regulations under section 49 of the Life Insurance Corporation Act defining the functions of the various authorities of the Corporation and the territorial limits of zonal and divisional offices were drawn up. Officers were provisionally selected for manning the various offices of the Corporation.

Before nationalisation, the insurance industry was organised into 243 autonomous units, each with its own separate administrative structure of office and field staff, its own separate set of agents and of medical examiners. Not only were their offices concentrated mostly in large cities, but their field of operations was often limited to the major urban areas. As an indication of this concentration, it may be mentioned that out of 145 Indian insurance companies (other than provident societies), as many as 103 had their head offices in the four cities of Bombay, Calcutta, Delhi and Madras.

Persons in charge of the 'controlled business' of insurers were instructed that, in addition to the accounts for the year 1955 which were statutorily required, they should close the accounts on August 31, 1956 and prepare a balance sheet as of that date. The consolidated balance sheet as of August 31, 1956 of all the companies formed the basis, after adjustment, of the commencing figures of the Corporation. A consolidated revenue account of all life insurance business for the period from January 1, 1956 to August 31, 1956 as well as a consolidated balance sheet as on the latter date are given in appendices 2 and 3.

It must, however, be stated that at the time of preparation of the above statements, a large number of individual company balance sheets and the revenue accounts were not completely audited. They have, however, been included in the consolidated statement in order to present as near a picture as possible of the position on the 'appointed day'.

The figures relating to a small number of insurers whose assets were about 0.3 per cent only of the total, are not included in the attached statement as these were not submitted when the statements were drawn up.

It will, however, not be out of place to mention that in The Indian Insurance Year Book 1957—there is no mention of the consolidated revenue account of the controlled business for the period January 1, 1956 to August 31, 1956 and the consolidated balance sheet of the controlled business as on August 31, 1956 as also of the working of the first four months of LIC ending December 31, 1956.

When the Corporation was constituted on September 1, 1956, it integrated into one organisation the controlled business of 243 different units, Indian and foreign, which were engaged in the transactions of life insurance business in India. These units differed widely in age, size, pattern of organisation, also in many aspects of working.

Investments taken over by the Corporation on the appointed day amounted to Rs. 341.40 crores, were distributed as follows:

INVESTMENTS AS ON AUGUST 31, 1956

(Figures in Millions of Rupees)

Sl. No.	*Class of Investments*	*Book values total*	*Percentage of class of investments to total*	*Book values in India*
1.	Government of India Securities	1,710.4	50.1	1,710.4
2.	Foreign Government Securities	113.6	3.3	Nil
3.	Indian State Government Securities	349.9	10.2	349.9
4.	Foreign Provincial Government Securities	07.3	0.2	Nil
5.	Government Guaranteed and other Approved Securities	316.7	9.3	313.3
6.	Debentures of Companies	203.8	6.0	194.9
7.	Preference Shares of Companies	132.9	3.9	128.7
8.	Ordinary Shares of Companies	234.2	6.9	224.3
9.	(*a*) Loans on Mortagage of Properties	149.7	4.4	148.6
	(*b*) Other Loans	07.1	0.2	07.1
10.	Land and House Properties	184.0	5.5	182.8
	TOTAL	3,414.0	100.0	3,260.0

The governments of the States of Mysore and Kerala (formerly Travancore and Cochin) had insurance departments, *the public branches of which were taken over under the provisions of the Life Insurance Corporation Act.* The assets of the controlled funds of these departments were held as balances with the respective State Governments. These assets, amounting to Rs. 71.6 millions approximately, are not included in the statement of investments above. Negotiations about the transfer of these assets to the Corporation were carried on with the State Governments and it was agreed that the assets will be treated as loans, carrying interest at the rate of 4 per cent per annum, to the respective State Governments, to be repaid by them in 20 equal instalments of principal.

The total assets of the above 243 units as on August 31, 1956, were about Rs. 4,110 million and the total number of policies in force was over five million assuring a total sum of more than Rs. 12,500 million. The total number of salaried employees was nearly 27,000. These figures give a broad idea of the magnitude of the problem involved in setting up an integrated structure.

Prior to nationalisation insurance companies used to have on their rolls very large number of agents. Only a small minority among them were active workers. The rest were either 'Benamies' (बेनामी) or casual agents who procured business only occasionally or persons who had no interest in the agency, but retained their licences to enable them to draw renewal commission.

The number of medical examiners of all insurance companies was generally far larger than were required by the Corporation.

The number of medical examiners required by the Corporation at each place was determined by taking into account the population of the place, business potential of the area and the average income which each medical examiner would receive from the Corporation if work was distributed evenly. Later, it was decided that the other doctors, who earned not less than Rs. 1,000 per annum from the examination of insurance proposals with private insurers irrespective of their standing in the medical profession, should also be added to

the list, after considering the record of their service with previous insurers.

Nationalisation of the industry involved setting up of a single institution with its main business offices—divisional and branch office—dispersed territorially all over the country so that the life insurance facilities were brought nearer the door steps of the large majority of people throughout the country, and it was felt that this would lead to more efficient and better service to policyholders.

The Corporation obtained the assistance of the Swiss Reinsurance Company of Zurich—the largest reinsurance company in the world—to underwrite insurance for persons having certain impairments which were previously considered not within the scope of insurance. The Swiss Reinsurance Company who are experts in underwriting risks on such impaired lives, having acquired the skill after a considerable amount of pioneering and research work, placed the services of one of their experienced underwriters to draw up detailed rules for the application of a scientific system of assessment of sub-standard risks of certain types.

As an illustration, the Corporation offered insurance to diabetics who were previously completely denied the benefits of life insurance.

Acquisition compensation: For the purpose of the computation of the compensation insurers were divided into three categories:

Part A—Insurers who had a share capital on which dividend or bonus was payable, and who have allocated bonus to policyholders at the last actuarial valuation prior to January 1, 1955;

Part B—Insurers who had a share capital on which dividend or bonus was payable but who did not allocate any bonus to policyholders at the last actuarial valuation prior to January 1, 1955; and

Part C—Insurers who did not have any share capital or having a share capital on which dividend or bonus was not payable.

Insurers falling under parts A, B and C number 79, 98 and 69 respectively.

The position which confronted the Corporation on its inception was one of relative excess of office and field personnel, and medical examiners in certain areas, with a shortage of similar personnel in areas where new offices were to be opened.

On a writ petition filed by some employees, the Bombay High Court held that the Life Insurance Corporation Act did not confer any power either on the Central Government or on the Corporation to standardise the terms and conditions of service of the employees. The position was remedied by the Life Insurance Corporation (Amendment) Ordinance which was promulgated on April 20, 1957.

A study of the problem of pay scale with a view to new scales of pay and formulae for the fitting-in of the existing employees which would be satisfactory to the employees and the Corporation alike was undertaken. The conclusions are incorporated in the order of the Central Government dated June 1, 1957 (Alteration of remuneration and other terms and conditions of service of employees) Order, 1957.

The implementation of the order increased the wage bill of the Corporation by about Rs. 60 lakhs per annum...[2]

The stupendous task of integrating the large number of Insurance companies and welding them into one unit of Life Insurance Corporation has been due to the loyal and hard work of a large number of officers.

The Government set a task with clear objectives of social service and mobilisation of individual resources for national development. Officers of the Government and the Corporation rose as one man to implement the same efficiently and quickly and brought into being the monolithic Life Insurance Corporation of India.

REMEDIAL MEASURES TO VITALISE ACTIVITIES OF LIC

Liabilities of Some Deficient Companies in respect of their Policies

(*i*) On the recommendations of the LIC, the Central government agreed to meet the claims in full under

[2]*Interim Report on the Activities of LIC*, August, 1957.

policies issued by some of the insurers, whose businesses were taken over by LIC and whose funds were not adequate to meet the liabilities or claims under the sums assured. The LIC could have modified the contracts of life insurance in such cases by reducing the amounts of insurance entered into by such insurers before January 19, 1956. The resulting deficit estimated at Rs. seven million (seventy lakhs) was made good by the Central Government in the nature of (non-interest bearing) gift and the same was added to the life insurance fund. This was adjusted out of government's share of 5 per cent of future valuation surplus at the second and subsequent valuations as follows:

1. 2nd Valuation—14,00,000
2. 3rd Valuation—12,87,500
3. 4th Valuation—14,37,500
4. 5th Valuation—28,75,000

(*ii*) It would also appear that, thereafter, the fund assets of the deficient insurance companies group index nil (total 53 companies) as against 99 in the first provisional list drawn up for distribution of bonus have either proved adequate to meet their liabilities or it was made available out of the total funds of all the companies controlled by the LIC.

(*iii*) It is noted that in group index nil the same 53 companies continued to be included till the 12th valuation report on March 31, 1979 and no bonus was allotted to the policyholders.

(*iv*) The detailed figures of the valuations are not published and as such are not available for examination or comments. It may, however, be noted that 46 erstwhile insurers moved up from group index nil (first provisional list) to different bonus paying groups.

The Usual Types of Policies and Their Basic Benefits

(*i*) *Endowment Assurance Policy*: This policy combines

provision for family in the event of early death of the life assured and assures lump-sum at any desired age.

(*ii*) *Whole Life Policies*: The premiums are payable throughout the life time of the life assured. It is the cheapest method to provide for the family and was very much popular in earlier years. It is now primarily used to provide for estate duty.

Both the above policies can also be obtained on 'with profit' basis and thus earn 'reversionary bonus' or 'additional sum assured'. An 'extra premium' is payable over the premium for 'non-profit' policies. Payments of premium can be limited for a selected shorter period than the term period of assurance.

The above two forms of policies with all their variations formed about 90 per cent of the total individual assurances underwritten by erstwhile insurance companies and even by LIC till about a decade ago.

(*iii*) *Joint Life Endowment Assurance on Two Lives*: The sum assured under this policy is payable at the end of the endowment term or the earlier death of either of the two lives assured. The rates of premium are determined by a simple formula, which provides the number of years to be added to the age of younger life assured depending on the difference in ages of the two lives assured.

(*iv*) *Double Endowment Policy*: This provides for family provision for a fixed sum and double sum on surviving of the term selected.

(*v*) *Fixed Term Marriage Endowment Policy*: The payment of premium ceases on the death of the proposer.

The sum assured is payable at the end of the fixed term as stipulated.

(*vi*) *Educational Annuity Policy*: On the death of the proposer payment of premium ceases.

The sum assured is payable in half yearly instalments for 5 years.

The above three policies (IV, V and VI) are issued, as 'without profit' policies.

(*vii*) *Guaranteed Triple Benefit Policy*: The sum assured increases by Rs. 25 per thousand sum assured for every year when premiums are paid, excluding the first year's premium.

The sum assured is payable if death occurs during the period specified in the policy. On survivance of the specified period the original sum assured beomces payable together with a fully paid-up assurance of like amount payable at death.

(*viii*) *The Anticipated Endowment Assurance Policy*: This policy provides as follows:

1. One-fifth of the sum assured is payable on surviving 5 years and a further one-fifth of the sum assured on surviving a subsequent period of 5 years.
2. The balance three-fifth is paid on survival of the selected term.
3. The full sum assured is payable without any reduction or adjustment of any survivance benefits as stipulated under section 1 mentioned above.

(*ix*) *The Convertible Whole Life Assurance Policy*: The premium for the first 5 years is as for limited payment up to 70 years of age for a whole life policy.

The policy is convertible to an endowment policy without further medical examination.

On conversion the bonus rate is readjusted as for endowment policy.

The policy can also be continued as a whole life policy with premiums limited up to age of 70 years.

(*x*) *Multi-Purpose Policy*: This policy is designed to provide within the compass of a simple policy several insurance needs of an individual such as, provisions for one's old age or one's family or for education or marriage or start in life of the children.

(*xi*) *The Children's Deferred Endowment Assurance*: During the deferred period the entire premium is paid back if the child dies. On surviving the speci-

fied dates, an endowment policy is issued at a lower rate taking into account the premium received during deferment period.

(xii) *The Mortgage Redemption Assurance Policy*: The institutions and individual borrowers can insure under this policy scheme that any outstanding loan in respect of their mortgage is automatically extinguished in the event of the borrower's death.

The schedule showing the amount of outstanding loan at the beginning of each year is drawn up at the outset on the basis of a pre-determined rate of interest. The minimum sum assured under the plan is Rs. 10,000. The premium is quoted on applications.

(xiii) *Pure Endowment Policy for Adults and Children*: This is a non-medical scheme and a method of compulsory saving either for the proposer or for the benefit of his dependents. In case of death within the prescribed term, all premiums paid are refunded without any deduction.

(xiv) *Two Years Temporary Assurance Policy*: This scheme of assurance has been designed to enable persons making gifts and to neutralise the attraction of estate duty on his death if it occurs within two years from the date of a gift as per conditions in the Estate Duty Act, 1953. A single premium is required to be paid at the outset. The rates are given below:

Sr. No.	*Age Nearer Birthday at Entry*	*Single Premium per Rs. 1,000 sum Assured*
1.	30	9.15
2.	31	9.30
3.	32	9.55
4.	33	9.80
5.	34	10.15
6.	35	10.50
7.	40	13.95
8.	45	20.25
9.	50	30.80
10.	55	48.90
11.	60	81.45

The minimum amount for which policy is issued under this plan is Rs. 2,000.

(*xv*) *Convertible Term Assurance Policy*: This plan of assurance is paid for a specified term of 5 to 7 years or for a shorter term of years whence only the death risk is covered.

The life assured under this plan has option to convert the policy into a limited payment life policy or endowment assurance policy without having to undergo fresh medical examination, at any time during the specified term, except the last two years. The rates of premiums are given below:

Sr. No.	*Age Near Birthday*	*Specified Term*		
		5 years	*6 years*	*7 years*
		Rs.	Rs.	Rs.
1.	20	5.30	5.30	5.30
2.	21	5.30	5.35	5.35
3.	22	5.35	5.40	5.40
4.	23	5.40	5.45	5.45
5.	24	5.45	5.50	5.50
6.	25	5.50	5.55	5.60
7.	30	6.05	6.15	6.25
8.	35	7.40	7.65	7.85
9.	40	10.10	10.45	10.85

(*xvi*) *Annuities*: The annuities is a special form of contract which permits the maximum possible income on the money paid for purchase of annuities.

The income is assured throughout life and ceases on the death of annuitant.

The annuities can be: *(i) immediate annuities, i.e.*, after it is purchased it will start at the end of 1 year and can continue for certain fixed years and thereafter till death, *(ii) The Deferred Annuity*: A deferred annuity can be purchased by a single premium or through payment of premiums over a number of years. The period during which the instalments are paid towards purchase of annuity is the 'deferment period' and the instalments are refunded in case death occurs during this

period, and *(iii) Retirement Annuity:* The payment of annuity instalment continues for a specified period notwithstanding the death of annuitant within the term on condition that such period of guarantee for payment of annuity does not exceed 10 years.

New Policies Issued from Time to Time

1. *The Centenary Policy*: It has been designed to meet the needs of a person whose income may fluctuate such as the people from rural areas and also from urban areas. After premiums have been paid for atleast 3 years, if default occurs in the payment of premium, life insurance cover under the policy is continued for a period of 1 year subject to deduction of cost of overdue premium with interest. This facility of extended cover is made available once in every block of 3 years after the first three years.

If the premium that was defaulted cannot be paid, the sum assured is decreased with effect from the expiry of 1 year from the date of default at a prescribed rate.

Similarly, further deductions are made for future defaults. In spite of the deductions the policy continues to be eligible for bonus on the original sum assured and also in respect of years during which defaults have happened and permitted as above. The maximum total sum assured is Rs. 5,000 on any one life and minimum of Rs. 1,000 and its multiple.

The premiums are payable yearly and no medical examination is required if the conditions applicable to issue of policies under the non-medical (General or Special) Scheme are satisfied.

2. *Grihalakshmi Policy*: The Corporation introduced this policy during the year ending March 31, 1976. Its main feature is while the husband who is the proposer pays the premium, the wife is the beneficiary and a trust in her favour is created under section 6 of the Married Women's Property Act (1874). The benefit provided is an annuity payable to the wife monthly throughout her life commencing from the date she attains the age fifty-five or from an earlier date on the unfortunate death of her husband. The plan also provides return of all premia to the proposer if the beneficiary dies before the age of fifty-five.

The LIC introduced three new Life Insurance policies with extra benefits, namely, 1. 'money back' policy. 2. 'cash and cover' policy. 3. 'progressive protection' policy.

3. *The 'money back' policy* is available for terms of 12 and 15 years. The benefits payable under this policy, for which the minimum sum assured is Rs.10,000, are given below:

(A) Term 12 Years

1. Rs. 2,000 on survivance to the end of 4 years.
2. Rs. 2,000 on survivance to the end of 8 years.
3. Rs. 6,000 on survivance to the end of 12 years.
4. Rs. 10,000 on death any time within 12 years.

(*B*) Term 15 Years

1. Rs. 2,500 on survivance to the end of 5 years
2. Rs. 2,500 on survivance to the end of 10 years.
3. Rs. 5,000 on survivance to the end of 15 years.
4. Rs. 10,000 on death at any time within 15 years.

Bonus accrued on the policy is payable at the end of the selected term or earlier in the event of death. The payment on death is to the extent of the full sum assured irrespective of the earlier instalment payments, at fixed intervals of time. No loan is granted under this policy.

4. *'Cash and Cover' Policy*. This policy is available for two selected terms of 20 and 25 years. In the case of a policy for 20 years, the insured receives four equal instalments of Rs. 1,250 each every 5 years. After 20 years the balance of Rs. 5,000 is paid at death whenever it should occur. In the event of death before 20 years, this amount of Rs. 5,000 is paid together with the unpaid instalments.

The bonus is calculated on the full sum assured and keeps on adding every year till death even after the lump sum payments have been made and premiums ceased. No loans are granted during the premium payment term.

5. *'Progressive Protection' Policy*: This policy is issued for the minimum sum assured of Rs. 5,000 and maximum sum assured for Rs. 50,000. The policy is available for terms of 20, 25, 30 and 35 years.

The policy in respect of basic sum assured of Rs. 5,000

has the following benefits:

(*a*) Rs. 5,000 on death during first 5 years.
(*b*) Rs. 7,500 on death during next 5 years.
(*c*) Rs. 10,000 on death during the rest of the term.
(*d*) Rs. 10,000 on survival to the maturity date.

Bonus is calculated on the initial sum assured for the first 5 years. After the increases in sum assured it is calculated on the increased sum assured. The bonuses are payable at the end of the selected terms, or earlier in the event of death.

The premium increases at the end of the first five years and is payable for the next 5 years for the increased sum assured. The premium will increase again at the end of 10 years and is payable for double the initial sum assured to the end of the term.

The premiums paid for the above policies also qualify for income tax rebates.

Reduction in Premiums

The Corporation reduced the premium rates for without profit policies with effect from February 1, 1970 under the following classes of policies:

1. Whole life;
2. Whole life by limited payments;
3. Endowment;
4. Endowment by limited payment;
5. Joint life;
6. Guaranteed triple benefit;
7. Multi purpose; and
8. Convertible whole life plans.

The LIC reduced premium rates during 1971 under the following plans.

1. Mortgage redemption;
2. Temporary Assurance;
3. Two-year temporary assurance;

4. Convertible Term Assurance;
5. One-year Renewable Group Term Assurance; and
6. Level Group Term Assurance plan.

To prevent the misuse of the income tax advantages available under the plan of pure endowment and similar plans, the *guaranteed surrender value for policies was reduced in respect of new policies issued.* The death benefit, other than due to accident was reduced to return of 80 per cent of the payment of all premiums received in case of death during the first policy year and to return 90 per cent of the amount of all premiums received in case of death during the second year.

The reductions applied to the pure endowment plan and to deferred annuity plans from November 1, 1970.

The Corporation also reduced the premiums under group gratuity during 1976.

Reinsurance Arrangements

Before the appointed day individual insurers in India had their own arrangements for reinsurance in excess of 'retention limit'.

Many of the erstwhile insurers had reinsurance treaties with some of the foreign reinsurance companies. With the Corporation coming into existence further ceding under these treaties were discontinued. However, in terms of the specific provisions contained in the treaties, the Corporation had to carry out the obligation in respect of business ceded to the reinsurers by the erstwhile insurers. To minimise the administrative work in connection with the treaties especially in regard to a large number of cessions involving small amounts, negotiations were carried on with the various reinsurers who agreed to cancellation of such cessions from mutually agreed dates.

The Corporation has entered into reinsurance arrangements with the Insurance Corporation of Ceylon in terms of which reinsurance on risk premium basis are ceded by the Insurance Corporation of Ceylon to the Corporation.

The integration of the business of the various insurers has drastically reduced the need for reinsurance. On account

of its size and resources, the Corporation is in a position to retain risk upto a sum of Rs. 5,00,000 on a healthy male life; over this the excess being reinsured. The LIC has entered into reinsurance treaties with two leading foreign re-insurers:

1. Swiss Reinsurance Company, and
2. Munich Reinsurance Company.

Incidentally, the Swiss Reinsurance has rendered valuable help to the Corporation in the development of life insurance business on sub-standard lives.

Removal of Occupational Extras

During the years 1970-71 the Corporation reviewed the occupational extras charged and took a decision to do away with the occupational extra premium under endowment assurance and whole life limited payment plans for those occupations for which extra premium charged was Rs. 4 per thousand per annum or less.

It is understood that such occupations covered under the extra charge of Rs. 4 per thousand per annum or less constitute over 90 per cent of all the hazardous occupations.

The LIC decided that on a broader concept of equity the extra risk for hazardous occupation should be shared by all policyholders rather than be covered by levying an extra exclusively on those pursuing hazardous occupation.

Financing of Housing Schemes and Mortgages

A scheme for grant of loans to policyholders for construction of houses was introduced in 1961. It has been revised and loans from rupees seven thousand five hundred to rupees one lakh are made available for construction of houses, extension of houses or purchases of recently constructed houses in good condition in *56 towns* to policyholders who are able to satisfy the Corporation with regard to the stability of their employment and stability of their income. This scheme is called 'own your own house scheme' and is expected to give an impetus to house construction and *relieve housing shortage*.

The 'own your home scheme' has been progressively extended to 736 centres. A total of 22426 loans amounting to Rs. 70.40 crores have been sanctioned so far.[3]

The Corporation also granted loans to apex cooperative housing finance societies in various States. Loans have been advanced to State Governments for financing middle-income group housing schemes and *the rental housing schemes*.

Other schemes for financing housing include:

1. Loans to cooperative housing societies formed by employees of the LIC;
2. Loans to public limited companies for purpose of providing houses to their employees; and
3. Loans to cooperative housing societies and employees of public limited companies.

The LIC inherited over 15 crores of investments on mortgaged property from the erstwhile insurers. It had to go in for litigation in respect of many of the mortgages and some of them are still outstanding.[4]

Out of the mortgage loans inherited by the Corporation, 271 mortgage loans involving Rs. 10,423,000 were outstanding as on March 31, 1976, and 243 mortgage loans for Rs. 9,220,000 were outstanding as on March 31, 1977.[5]

A considerable amount of money is spent on legal expenses on this account in addition to the usual expenses in connection with such types of investment.

We, however, notice that the LIC has gone in for further mortgage business in a big way in the recent past.

Table 1 shows increasing number of mortgage loans outstanding. These mortgage businesses are predominantly within municipal and corporation jurisdiction.

[3]*23rd Annual Report of LIC, 1980.*

[4]The total number of suit filed so far exceeds 400 and it is likely that about 200 more will have to be filed in the near future. . . " para 61 of the *First Report & Accounts LIC, 1957.*

[5]178 loans inherited, by the Corporation amounting to 6,901,000 were still outstanding on March 31, 1980—*23rd Annual Report & Accounts of LIC, 1980.*

TABLE 1 MORTGAGE LOANS OUTSTANDING GRANTED BY THE CORPORATION

Sl. No.	*Year Ending*	*Number*	*Amount in million of rupees*
1.	31.3.72	10188	34,800.1
2.	31.3.73	12006	40,816.1
3.	31.3.74	13696	46,598.9
4.	31.3.75	16229	54,981.5
5.	31.3.76	18271	62,566.5
6.	31.3.77	19941	68,731.5
7.	31.3.78	21078	76,134.1
8.	31.3.79	21997	80,647.3
9.	31.3.80	22935	84,154.2

The LIC also constructs or purchases accommodation units for its employees. It also has a scheme for building accommodation for rental purposes. There is an acute accommodation shortage for lower and middle class persons in the urban areas as also in newly developing areas.

Any constructions either directly by the LIC or preferably through a specialised agency for rental purposes will be useful.

The allotment, maintenance and the realisation of rents by a specialised agency will not only relieve the LIC from the day-to-day operations but also give them a good steady return.

A further reference will be made to these points in a subsequent chapter.

Transfer of Business

The businesses underwritten in South Africa, in Pakistan and later in Bangladesh were segregated. The business transacted by erstwhile insurer in South Africa was transferred to a local company in South Africa.

The business transacted in Pakistan has been kept in a separate account.

The business transacted in Bangladesh is being serviced under the direction of the Bangladesh Insurance Corporation.

The Use of Hindi

The LIC has recently drawn up a glossary of insurance terminology in Hindi and progressive use of Hindi in official work is being attempted. Statutory reports, staff and agents regulations, gazette notifications and table diaries have been printed in Hindi.

To bring home the benefits of life insurance, pamphlets in various regional languges particularly in South Indian languages were issued and the Agents Training Course was translated and printed in 12 regional languages as early as 1959. The policies, however, continue to be issued in English.

New Schemes

1. *Salary Saving Scheme*: We will now refer to Salary Savings Scheme, non-medical and group insurance scheme and annuity business conducted by LIC.

Under this scheme the premiums in respect of the individual policy of each employee are deducted from the salaries and the payment is made through one cheque by the employer. A reduction of Re. 0.75 is allowed on the tabular rate of premium on every thousand rupee sum assured and in addition the additional charge of 5 per cent of the premium for monthly payments is also waived.

2. *Non-Medical Scheme*: The LIC conducts two types of non-medical schemes:

(*a*) *Non-medical 'general' scheme*—The maximum sum assured under this policy (one or more policies) is Rs. 2,000. The maximum age at entry is prescribed as forty years nearer birthday. The proposals are entertained only under the schemes of endowment assurances. The maximum policy term is 25 years and the premium ceasing age or maturity age is sixty years.

Where a proposer cannot furnish age proof other than a declaration, such proposers are to be below thirty-five years of age. An illiterate person if he has an earned income, can be insured under

this scheme. The policy, however, will have a lien of 50 per cent during the first six months after the commencement of the policy and 25 per cent during the next six months. Such proposers desiring to secure a policy without the lien are required to submit a medical report to the satisfaction of the corporation.

(*b*) (*i*) *Non-medical 'Special' Scheme*—This is restricted to males who are literate and not more than forty-five years of age, and employed for not less than one year in the following:

1. Government office.
2. Quasi-Government offices.
3. Schools, hospitals, etc., run by (1) and (2) above.
4. State corporations, Government industrial undertakings.
5. Reputed commercial firms.
6. Non-government industrial undertakings.

The proposals are broadly entertained under life and endowment policies.

(*ii*) Commissioned officers in the armed forces not more than forty-five years of age and who are category A1 in the last medical examination and have not been put in a lower category during the two years prior to the date of proposals.

The maximum sum assured under (*b*)(*i*) category was generally Rs. 5,000 except for those persons who were below thirty years of age, in whose case the maximum sum assured was Rs. 10,000. Similarly, the maximum sum assured for the commissioned officers in the armed force was Rs. 10,000.

The success of the scheme encouraged the LIC to increase the upper limit of sum assured from Rs. 2,000 to Rs. 4,000 in the case of general policies and Rs. 7,500 where it was previously Rs. 5,000 under non-medical special schemes.

3. *Group Insurance Scheme*: This scheme made slow progress during first fifteen years or so. Since then it has made rapid progress. The salient features of the scheme are now given.

The group insurance scheme is applicable to a viable number of individuals in a like group under an employer where more than 50 per cent of the eligible members join initially and later all future additions to the group join the scheme.

The sum for which an employee is to be assured in such a group life policy is based upon some pre-determined plan which precludes individual selection. This is ordinarily based on the sum assured or the annual contributions by the employer to the salaries of the employees in broad groups or by category of service. These employees participate in increased life insurance benefits by virtue of increase in salary, which is usually effective from the anniversary date of the scheme.

In the case of employed persons under a single employer it is usually prescribed that the minimum age of an employee should not be less than 18 years, last birthday and the maximum age at entry is ordinarily 45 years nearer birthday. When, however, employees between the age of 45 and 50 years are allowed to join the scheme they have to undergo a medical examination.

The policies ordinarily cease to be operative in respect of any one individual at the age of retirement which is usually fixed at 60 years.

Group Insurance policies can be contributory or non-contributory.

Under the non-contributory scheme the employer may pay the entire premium under the policy. The contribution in respect of each employee is added to the salary of the individuals for the purpose of income tax. Alternatively the scheme may be contributory, that is the premium is shared between the employer and is also paid by the individual employees in certain proportions, such as a fixed percentage of the respective salaries, balance being payable by the employer. The contributions in respect of the employer should ordinarily be not less than 25 per cent of the total premiums paid to the Corporation.

The contributions made by an employer under a group insurance scheme are permitted to be deducted in computing one's income, profits and gains for the purpose of assessment to income tax.

Apart from other considerations the group insurance scheme is marked by simplicity of operation and economy in administration. For instance a single master policy is issued to the employer with schedule showing the names of employees who are initially admitted to the scheme, their ages, particulars of insurance including the dates on which such insurance become effective and the amount of premium that is required to be paid.

Before each policy anniversary the Corporation requires a statement containing similar information in respect of new employees who become eligible for insurance. Similar statements are also required where changes in the amount of insurance in respect of existing persons have taken place or where the insurance in respect of some insured is required to be terminated on account of retirement, etc. The Corporation is entitled to examine the basic records of an employer which contains the relevant information of the individual employees who are covered under the policy. The premium amount calculated on the basis of the information submitted in the schedule as determined by the Corporation is to be paid within the specified time.

Every individual employee insured under the scheme is entitled to an individual certificate which states the amount of insurance for which such an employee is insured under the master policy. Whenever there is a variation in the insurance benefit a new certificate of insurance is issued. Such a certificate is only for the purposes of record and is not assignable under the provisions of the Insurance Act, 1938.

In case an employee desires to opt out of the insurance cover on ceasing to be in employment he has the option to get a cash surrender value which is ordinarily not less than 50 per cent of the total premiums paid. Actual amount is to be ascertained in each case.

An employee may continue the assurance as an individual policy subject to payment in future of such premiums as the employee would have been required to pay had he effec-

ted an individual policy under the same plan with the Corporation on the date the group insurance policy became effective.

He may also accept an individual paid up assurance subject to the minimum paid up assurance being for a sum not less than Rs. 100. Such paid up assurance do not participate in profits in future but all bonuses already declared attached to the policy are added thereto.

To start with group insurance schemes generally covered—

1. Whole Life Limited Assurance
2. Endowment Assurance
3. Fixed Term (Endowment)
4. Educational Annuities

The premium ceasing age is ordinarily prescribed to be the retirement age or lower.

The group schemes are finalised after detailed discussions with the employer which takes into account the specific needs of the employees and as such can be said to be 'tailor made'. It is, therefore, variable in scope for benefits that can be provided under each policy.

To determine the insurability of individuals, permanent employees of three/six months' continuous service or actively at work on entry day is ordinarily accepted as adequate. The evidence of good health is considered to be satisfied if worker has not availed of more than 13 days' medical leave subject to not more than 6 days at a stretch during the preceding six months of the entry date. The workers who have taken medical leave can also be admitted to the group scheme subject to satisfactory medical examination or the Corporation may agree to waive the condition at its discretion. The operation and effective management of such schemes is done with the cooperation of the employer. Ordinarily a special condition provides for review of the scheme every year to determine the cost of operation and the viability of such schemes, and the rates of premium are adjusted accordingly. A part of the premium payable is utilised to cover the death risk and the balance is kept invested to provide the survival benefits.

Surplus that arises out of the operation of the scheme is shared by the LIC and the employer on a pre-determined basis. This surplus is maintained in a balancing account.

Group insurance as the name suggests can have fixed premium rates for particular age groups. That is, it does not change within specified limits say 18 to 28 years of age, 29 to 34 years of age, 35 to 44 years of age and so on.

The premium rates are calculated on the basis of mortality tables.

Broadly speaking the group insurance schemes have enlarged their scope to cover:

(*i*) not only the categories of life insurance plans mentioned earlier, but also
(*ii*) group gratuity scheme,
(*iii*) employees deposit linked insurance scheme,
(*iv*) group provident fund scheme,
(*v*) group temporary assurance scheme,
(*vi*) group annuity or pension scheme, and
(*vii*) other schemes drawn up to cover special needs of a group.

The progress of group insurance benefits underwritten by LIC may be judged by Appendix 11.

4. *Annuity Business*: The progress of annuity business may be seen from Appendix 7. There is considerable scope for development which has not yet been tapped by the LIC.

PROGRESS OF LIC

The consolidation, progress and expansion of the LIC can be seen in Appendices 4 to 11.

1. Individual insurance new business within India and outside India with proposals and policies.
2. Group insurance schemes—new business progress.
3. Life insurance business in force controlled and LIC business.
4. Annuities and pensions (within and outside India).

5. New business completed in urban and rural areas.
6. Salary savings scheme.
7. Non-medical scheme.
8. Group insurance business in force.

The Indian Insurance Year Book is the statutory agency under the Insurance Act, 1938 in which the Central Government publishes the summary of accounts, balance sheets, statements, abstracts and other returns under the Insurance Act and other relevant information pertaining thereto. This is a statutory obligation. Section 116A of the Insurance Act, 1938, as amended up to date refers.

The information regarding Life Insurance Corporation for its first full year's working during 1957 or first 16 months' working from September 1, 1956 to December 31, 1957 is not available in the Indian Insurance Year Book of 1958 and even in the Year Book of 1959.

First reference regarding the working of LIC is found in the Indian Insurance Year Book of 1960 where the summary of life insurance business, including balance sheet and revenue accounts of LIC for the years 1958 and 1959 are given.

3

Nationalised Life Insurance—A Review

OFFICE STAFF

THE integration of a large number of offices at the time of nationalisation resulted in surplus staff in certain categories. These were governed by the Life Insurance Corporation of India (Staff) Regulation 1956, issued with the approval of the government which provided for uniform service regulations for the employees. It was believed that after the staff of erstwhile insurers are integrated into the common class of services of the LIC, the excess staff will be soon adjusted due to the increased business which, it was anticipated, the LIC would underwrite.

It, however, transpires that the above expectation of adjustment of excess staff did not materialise and further recruitments have regularly taken place on the basis of budget forecasts prepared. Whilst the expected business was never achieved the recruitment once made continued with the LIC and it would appear that in the following budget forecasts the factor of excess staff was not adequately taken into account.

It may be true that the work norms and the productivity of a worker or a group can be determined with the cooperation of the staff and their unions to arrive at a reasonable cadre strength. It is unfortunate that the staff unions have not extended their cooperation to the LIC. This resulted in continued over-staffing in the LIC offices. A visit to any of the offices of LIC would give an impression of a casual approach to work, laxity, and inefficient office procedures which get reflected in higher expenses of management. The state of affairs do not appear to have changed very much since 1968 when the chairman of the LIC made the following remarks:

The Corporation was over-staffed from 5 per cent to 25 per cent but even then efficiency was not there. The inspection reports reveal serious irregularities and that no action was taken.[1]

The staff regulations modified to-date includes the subsequent directions by the government. It *inter-alia* includes:

(*i*) No bonus shall be paid,

(*ii*) The Corporation will set aside an amount every year for expenditure on schemes of general benefit such as:

(*a*) free insurance scheme,

(*b*) medical benefit scheme, and

(*c*) an amount for being spent in consultation with the employees of the respective offices on other measures of welfare and amenities to the staff.

The Corporation introduced a free insurance scheme which required it to spend an amount roughly equal to a month's basic salary.

AGENTS

A licensed agent is one who draws renewal commission in respect of any business that he may have introduced earlier.

An active agent is one who has introduced even one policy of one thousand rupees sum assured.

A further distinction has been introduced by calling an agent qualified. A qualified agent is one who has introduced at least 6 policies worth more than Rs. 40,000 sum assured in a year in an urban area or Rs. 20,000 sum assured in a rural area.

Table 1 gives the number of agents licensed and the number of active agents.

[1]Remarks made by the Chairman at the special Zonal Managers' Conference held on July 24, 1968 and also see, *Report of the Committee of Enquiry into the Expenses of the Life Insurance Corporation*, Part I, April 1969, p. 166, para 7.3.9.

TABLE 1 NUMBER OF AGENTS LICENSED AND ACTIVE AGENTS

Sr. No.	*Year Ending*	*No. of Agents*	*No. of Active Agents*
(1)	(2)	(3)	(4)
1.	31.3.72	162,357	150,859
2.	31.3.73	169,004	154,766
3.	31.3.74	166,455	153,334
4.	31.3.75	161,013	146,103
5.	31.3.76	155,153	144,385
6.	31.3.77	142,048	130,621
7.	31.3.78	128,993	117,702
8.	31.3.79	117,206	107,966
9.	31.3.80	119,077	110,366

It would be preferable if the number of qualified agents for each year were indicated by LIC in order to attract suitable candidates for 'career agents' training and also assess their performance. The scheme of 'career agents' was introduced by LIC for the first time during the year 1971-72 to provide itself with a suitable and dependable agency force.

It may be noted that the work of issuing licences to insurance agents has been transferred from the office of the Controller of Insurance to LIC since July 1, 1974.

The traditional method of remunerating agents for the business introduced is payment of commission. This primarily depends upon the volume of life insurance proposal introduced resulting in policies. The commissions are measured in terms of number of policies, sum assured and the first year's premium.

The commission payable to agents is not the only remuneration that an agent is entitled to for the business introduced to the LIC.

The rates of commission vary with the premium paying period and the different classes of assurances. Table 2 covers most of the assurances schemes offered by the LIC.

In addition to Table 2 *Bonus Commission* is payable to agents at the rate of 20 per cent, 30 per cent or 40 per cent of the eligible first year's commission of : (*a*) Rs. 400 or more

TABLE 2 RATES OF COMMISSION PAYABLE TO AGENTS DURING THE CONTINUANCE OF AGENCY FOR DIFFERENT PREMIUM PAYING PERIOD

(*Percentage*)

Sr. No.	*Premium Paying period*	*Commission on first year's premium*	*Commission on 2nd and 3rd year's premium*	*Commission on subsequent year's premium*
(1)	(2)	(3)	(4)	(5)
1.	15 years or more	25	7.5	5
2.	10 to 14 years	20	7.5	5
3.	5 to 9 years	10	5.0	5
4.	2 to 4 years	5	2.25	2.25
5.	The commission payable for all plans under a single premium is 2 per cent.			

but less than Rs. 700; (*b*) Rs. 700 or more but less than Rs. 1,000; and (*c*) Rs. 1,000 or more.

At the maximum rate, the bonus commission is 10 per cent additional to the first year's commission for the premium paying period of 15 years or more. Similarly the maximum Bonus Commission is 8 per cent to the premium paying period 10 to 14 years.

Rates of commission for the special policies: (*i*) money back policy, (*ii*) cash and cover policy, (*iii*) progressive protection policy—introduced by LIC from September 1, 1976 is given in Table 3.

Broadly speaking, the above is the commission remuneration for the agents. In addition to the above, the agents are entitled to free term insurance up to Rs. 10,000 and also gratuity up to a maximum amount of Rs. 30,000. The agent is also entitled to get commuted value of all future renewal commissions payable as a lump-sum.

In Appendix 12, LIC also has schemes for providing housing facilities to the agents under their mortgage plans through which the agents obtain financial assistance at a lower rate of interest than is given to the policyholder.

The agents are also entitled to get life policies on their own lives at a lower rate of premium.

TABLE 3 RATES OF COMMISSION

(*Percentage*)

Sr. No.	*Premium paying period*	*Commisston on first year's premium*	*Commission on 2nd and 3rd year's premium*	*Commission on subsequent year's premium*
(1)	(2)	(3)	(4)	(5)
1.	15 years or more	15	10	6
2.	10 to 14 years	15	8	6
3.	The Bonus Commission for the above special policies is 6 per cent in both the above cases.			

Acceptance of commission relating to policies of life insurance taken out by agents on their own lives are not deemed to be acceptance of rebates on premiums. This acceptance is prohibited under section 41 of the Insurance Act 1938. It is punishable under the proviso (2) of section 41 of the Insurance Act 1938. Section 41, otherwise prohibits either payment or acceptance of any rebates of the premium.

The direct expenses for securing proposals resulting in policies include commissions, bonus commission and other remunerations paid to the agents but also include the expenses in respect of the development officers, which are not shown separately in the Reports and Accounts of LIC. These are, nevertheless, quite substantial.

In view of the handsome remunerations that LIC agreed to pay to the agents one would normally expect that the agents would render services to the policyholders to justify their claim to the renewal commissions. This, however, does not appear to be experience of the policyholders, and there is considerable dissatisfaction with the quality of services rendered by the agents.

The claims to the renewal commissions are negatived by the assertions of the Life Insurance Agents' Federation of India who maintained that there is no obligation on the agents' part "to render service to the policyholders" and that the agent renders "service as a matter of courtesy" or "as a

matter of business expediency".[2]

It submitted to the Committee of Enquiry into expenses of Life Insurance Corporation of India set up by the Government of India in 1967 as follows:

> Our Federation is of firm opinion that the renewal commission is paid to an agent as a deferred payment of full compensation for the sale effected.[3]

DEVELOPMENT OFFICERS

In the immediate pre-nationalisation period insurers created a number of intermediaries between the branch manager and the agent, carrying a variety of designations such as inspectors, organisers, superintendent of agencies, supervisors, development officers, etc. These categories of appointees were classified under the broad heading of "Field Officers". A common factor for these salaried field workers was that their performance was judged by the business underwritten and first year's premium income collected. These intermediaries came in for adverse criticism at the time of nationalisation and were discontinued.

LIC, however, have introduced a category of the development officers between the agents and their managers. Their number has increased rapidly and now totals 6732 as on March 31, 1980.

The number of development officers had even touched the high figure of 8,720 during the year ending March 31, 1965.

The expenses incurred on the development officers contributed substantially to the rise in the procurement cost of new business and maintenance cost of renewal business. This followed the acceptance of the development officers' demand for regular increment irrespective of their performance and no disincentive for under-average performance. It is obvious that the extra-cost of expenses is not in the interest of policyholders and is a factor which comes in the way of revision and reduction of premium rates. The expenses relating to the

[2] *Report of the Committee of Enquiry into the Expenses of the Life Insurance Corporation*, Part I, April 1969, p. 236, para 9.11.2.

[3] *Ibid.*

development officers (*i.e.*, salaries, etc.) form part of the management expenses in the annual reports and accounts of LIC.

The agents are ordinarily recruited by the development officers. The association of LIC agents, Bombay had submitted to the Committee of Enquiry into the Expenses of LIC under the chairmanship of Shri R.R. Morarka, M.P., as follows:

> Presently recruitment of Agents is done by the Development Officers. Mostly the Development personnel are interested in having a 'Benami Agency' for themselves and in addition are satisfied with the appointment of as many 'contactmen' or 'spotters' as they can. They have a vested interest in these agents, because of their controlling position. These agents are recruited at random and relying on the law of average, they are satisfied if a few out of them turn out able and stable.[4]

The unsatisfactory nature of services rendered by the class of development officers and heavy expenses incurred on them are a dead weight on the operational cost of new and continuing business and has an adverse effect on other workers, both in the fields and in the offices.

In American Life Insurance companies and in Life Insurance companies of Canada and in particular Sun Life of Canada there are no intermediaries between the branch manager and the agents.

We have later suggested methods of tackling the problem of development officers and eliminating their expenses to safeguard the interests of policyholders and to improve the practice of life insurance.

MORTALITY AND INTEREST RATES

The Corporation has set up the necessary machinery to conduct a continuous investigation into the mortality of assured lives since 1960.

[4] *Report of the Committee of Enquiry into the Expenses of the Life Insurance Corporation*, Part I, April, 1969, pp. 224-225, para 9.4.2.

It made preliminary investigations to cover the experiences of nine major integrated head office units during the year 1961. These unit accounted for about three fourths of the entire business in force of all the insurers prior to nationalisation. The size of the data in respect of these units was large enough to enable the construction of a life table.

The preliminary investigation confirmed that there has been considerable improvement in the mortality of assured lives in India since the publication of Orientals 1925-35 tables.

The new table may be considered as reflecting the current experience of assured lives in the country. This is further confirmed by a second investigation into the mortality experiences of assured lives with the divisional offices of the Corporation.

Shri D.D. Markan investigated the mortality experience of LIC during 1961-64.*

The mortality rates experienced has been constantly favourable during the last 20 years. This is evident from a reference to Statement (13) in the appendix. This results in considerable savings in death claims and ordinarily should help to pay bonuses additional to those provided for in the initial loadings and subsequent provisions made in the valuations.

Similarly, the lower net rate of interests assumed in the valuations also augments the life-fund, but holds back returns to the policyholders. Statement (14) in the appendix refers.

Both the above help to increase the life fund which provides additional strength and stability to the life insurance business.

The investment of life (insurance) Fund is governed by Statute to help developments in the country. The policy of investments have been referred to later in Chapter 4.

PROVISION FOR EXPENSES

The third important item in the calculation of premium and in valuations is the item of expenses, its quantum, pro-

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vision for future bonus and additional margin provided to bring out a surplus. This is, broadly, covered under the factor 'loadings'. Its adequacy or over spending is variously measured.

The overall expenses comprise of: (*i*) first year's expenses, and (*ii*) renewal expenses.

This is expressed in terms of ratios of first year's premiums and the renewal premiums.

Other incomes of the life fund, *i.e.*, dividends, rents, etc., are ordinarily kept out to provide a source of hidden reserve by addition to life fund. This was statutorily prescribed and was applicable to erstwhile insurers.

Prior to nationalisation, higher deviations were controlled by the Controller of Insurance who could:

(*i*) issue warnings to the insurers, and 'in consultation with the insurance council',
(*ii*) permit relaxation for some time under specified conditions, and
(*iii*) the controller could order a special valuation of the life insurance business.

The provision for expenses made in the valuation reports is given in appendix 15.

It will be seen that the provision for expenses has been increasing substantially, and provisions are being made out of the renewal premiums of existing policyholders and future renewal premiums of new policyholders to provide for coverage of the rising expenses. References to the expense ratios were made in the statements to the annual reports of LIC for the following years: (*i*) 1956-57, (*ii*) 1958, (*iii*) 1960, (*iv*) 1962-63, and (*v*) 1963-64.

In the first report of 1956-57 it was categorically mentioned as follows:

> The renewal expense ratio of 15.89 per cent must be considered as high. With the introduction of nationlisation and improved administrative procedures coupled with the expansion of business, a reduction in the expense

Some of the large companies prior to nationalisation controlled their first year, renewal and overall expenses. The renewal expenses ratio used to be less than 15 per cent as prescribed statutorily under the Insurance Rules 1939 framed under the amended Insurance Act, 1938.

It will be seen from Appendix 16 that the renewal expenses of LIC came below the 15 per cent figure for the year 1959 till 1966 and since then have been always more than 15 per cent except for two years 1972 and 1973 and for the last two years of 1975 and 1976 the figures stand at 19.35 (adjusted renewal expense ratio reworked on the basis of actual expense on group and superannuation business being allocated to group and superannuation business).

The overall expense ratios during the year 1975 and 1976 have touched the figures of 30.48 per cent and 29.66 per cent. The increases during the above two years are in spite of the rapid increase in the new premium and total premium incomes. The overall expense ratio for the year ending March 31, 1977 is shown as 26.10 per cent, which is a welcome reduction.[5]

It is interesting to note that LIC does not publish its expenses incurred, normally calculated as a percentage of the first year's premium received, which certainly has an important bearing on the overall expense.

It is, however, clear that increasing provision for expenses was made in the successive valuations. The current

[5]The favourable effects of lower overall expense ratio will be nullified to some extent by the Supreme Court decision quoted below:

> By a unanimous judgement, the Supreme Court today struck down the Life Insurance Corporation (Modification of Settlement) Act enacted by Parliament during the Emergency, nullifying the bonus settlement entered into between the management and employees of the LIC.
>
> The Court also directed the Union of India and the LIC to pay the annual cash bonus for the year 1975-76 and 1976-77 to Class III and Class IV employees of the Corporation in accordance with the settlement of January 1974. The settlement provided for payment of 15 per cent bonus to about 50,000 Class III and Class IV employee and was to be valid till March 1977. The bonus to be paid was not dependent upon profits earned but was nothing short of increased

provisions made in the valuations ending on March 31, 1979 are substantial and the highest so far.

VALUATIONS

The LIC uses a gross premium method of valuation. The consulting actuary has to eliminate all negative values that sometimes appear in the early stages of such policies.

The basis of valuation, and determination and allocation of surplus, etc., are now referred to. The following observations are made:

Mortality Tables

(*a*) Modified Oriental 1925-35 ultimate mortality table for all classes of assurance has been used except where liability is ascertained by accumulating office premium.
For the first valuation Oriental 1925-35 ultimate mortality table was used.

(*b*) For immediate annuities British offices A (m) and A (f) life annuity tables ultimate experiences are used.
For the last three valuations that is ending as on March 31, 1975, and March 31, 1977 and 1979 British offices $^{a(55)*}$ ultimate mortality table is used.

Rates of Interest

The rates of interest have been slowly increased from $2\frac{7}{8}$ per cent to $3\frac{3}{4}$ for assurances other than group pure endowments. In the tenth valuation ending March 31, 1975 the group pure endowments have been assessed at 5 per cent and annuities at 4 per cent.

In the 12th valuation ending March 31, 1979—the corresponding interest rates are $3\frac{7}{8}$ per cent, 7 per cent and 4 per cent respectively.

Provision for Expenses and Profit

The provisions for expenses and profits have risen as follows:

...mium—from 20 per

(*ii*) Limited payment and paid-up with-profit policies after cessation of premiums from Rs. 5 to Rs. 15 (per thousand sum assured per annum).

(*iii*) Without profit (non-participating policies) from Rs. 15 per cent to Rs. 19.25 per cent of office premiums.

(*iv*) Limited payment and paid-up without profit policies from Rs. 1 to Rs. 7 (after cessation of premiums per thousand sum assured per annum).

The basis of valuation for the two years ending March 31, 1979 is as follows:

Mortality—The LIC (1970-73) ultimate Mortality Table rated up by three years.

Rate of interest—

Other than group pure endowments	$3\frac{7}{8}$ per cent
Group pure endowments	7 per cent
Annuities	4 per cent

Provision for expenses and profits:

Premium paying period participating policies	30.00 per cent of offices premium
Non-participating policies	19.25 per cent of office premium
After cessation of premiums—	
participating policies	Rs. 18.00 per thousand sum assured per annum
Non-participating policies	Rs. 7.00 per thousand sum assured per annum

LIC has decided that no bonuses will vest and no loans will be sanctioned for policies issued after April 1, 1973 for the first five years. Bonus will, however, be payable in case of death during this period.

Biennial bonuses declared for LIC and group 10 of the

controlled business per thousand per annum are indicated below:

Whole-life Year ending		*Endowment Assurance*
31.12.57	Rs. 17.50*	Rs. 14.00*
31.12.59	Rs. 16.00†	Rs. 12.80†
	Rs. 16.00	Rs. 12.80
31.12.61	Rs. 16.00	Rs. 12 80
31.3.63	Rs. 17.50	Rs. 14.00
31.3.65	Rs. 20.00	Rs. 16.00
31.3.67	Rs, 20.00	Rs. 16.00
31.3.69	Rs. 22.00	Rs. 17.60
31.3.71	Rs. 22.00	Rs. 17.60
31.3.73	Rs. 22.00	Rs. 17.60
31.3.75	Rs. 22.00	Rs. 17.60
31.3.77	Rs. 25.00	Rs. 20.00
31.3.79	Rs. 31.00	Rs. 24.80

Bonus for whole life with profit-policies is 125 per cent of the bonuses rate for the endowment policies.

It is reiterated that no bonuses will vest and no loans will be sanctioned for policies issued after April 1, 73 for the first five years. Bonus will, however, be payable in case of death during this period.

We now deal with the classes of lives eligible for insurance, mode of payment and reduction in premium, treatment of policies for large and small amounts.

Classes of Lives Eligible for Assurance

The rates of premium of LIC under the assurance tables apply to male lives on the basis of the medical examiners' report, where required, personal and family history, occupation, etc., who are considered by the Corporation as first class lives.

Others, if accepted, are issued policies subject to either extra premium or lien or conditions as may be imposed. The

*For policies that became claims by death or maturity on or before

rates quoted under endowment and deferred annuity tables of LIC apply to Indian lives.

Modes of Payment of Premiums

Premiums other than single premiums may be ordinarily paid in yearly, half-yearly, quarterly or monthly instalments.

(*a*) The monthly mode of payment of premiums is ordinarily not allowed in the case of policies of sum assured of less than Rs. 1,000.

(*b*) Half-yearly, quarterly or monthly modes of payment of premiums are not allowed in the case of children's deferred Endowment Assurance Policy.

(*c*) Quarterly or monthly mode of payments of premiums are not allowed in the case of the whole life policy, the limited payment life policy, with premium paying term of 40 years, or more, the pure endowment policy, the convertible whole life assurance policy, the deferred annuity policy, the convertible term assurance policy and the retirement annuity policy. For deferred annuity policy monthly mode of payment of premiums is, however, allowed if the policy is brought under the Salary Savings Scheme after it has been in force for a period of at least six months.

(*d*) In all other cases, monthly mode of payments of premiums is allowed, only if—

(*i*) premiums are payable under Salary Savings Schemes (where only two instalments of premium are required to be paid along with the proposal),

(*ii*) proposer pays at least three monthly instalments of premiums along with the proposal.

Reduction in Premiums

If premiums are payable yearly and half-yearly a reduction as shown below is allowed in the annual premiums per thousand sum assured. No reduction is, however, made for

Yearly

(*i*) The reduction in the case of yearly mode of payment is 75 paise per Rs. 1000 sum assured under the policies in respect of the bulk of the insurance plans.

(*ii*) In the case of pure endowment policy, children's deferred endowment assurance and deferred annuity policy, the reduction is restricted to 37 paise.

No reduction is allowed on two years temporary assurance, convertible term assurance and retirement annuity.

Half-Yearly

In the case of half-yearly mode of payment the reduction in premium is 50 paise in respect of the policies covered under (*i*) above.

Twenty-five paise reduction is allowed in the case of pure Endowment policy and deferred annuity policy but not on children's deferred endowment assurance and no reduction is allowed in respect of other policies covered under (*ii*) above.

Quarterly

No addition to or reduction in premium is made for premiums payable quarterly.

Monthly

(*i*) For monthly instalments an additional charge of 5 per cent on the annual premium shown in the tables is made to cover loss of interest and additional cost of collection.

(*ii*) This additional charge of 5 per cent of the premium is waived if the premiums are paid under salary savings scheme.

(*iii*) If the instalment of premium is less than the initial minimum deposit required, the proposer is required to pay at the outset an additional sum so that the total amount deposited is not less than the minimum deposit required.

Other Conditions

When premiums are payable oftener than once a year and death takes place before all the premiums have fallen due for the current policy year, the unpaid instalment or instalments, if any or premium for that year is deducted from the sum assured on settlement of claim.

Reduced Premiums for Policies of Large Amounts

In respect of the bulk of the policies issued by LIC for Rs. 5,000 and upwards a reduction is allowed in the annual premium per Rs. 1,000 sum assured as shown below:

Where sum assured is	
(*a*) Rs. 5,000—9,999	50 paise
(*b*) Rs. 10,000—19,999	75 paise
(*c*) Rs. 20,000 and above	Re 1.00

The instalment of premium or the instalment of annuity is rounded off to the nearest multiple of 10 paise.

Policies of Small Amount

(*a*) The minimum sum assured is Rs. 500 under (*i*) ordinary endowment assurance plan; and (*ii*) Limited Payment Life Plan.

(*b*) Policies for less than Rs. 1,000 under the above plans, are issued subject to further following conditions: (*i*) The maturity or premium ceasing age shall not exceed 60, (*ii*) the premium paying period or endowment term shall not ordinarily exceed 25 years. (*iii*) the sum assured shall be a multiple of Rs. 100.

In cases where the policies are financed from the provident fund, if the requirement of the fund is that the policies should mature on an age beyond 55 years, or the premium should cease at an age beyond 55 years, policies for terms exceeding 25 years will be issued, subject to the other stipulations mentioned above.

Policies for sum assured of less than Rs. 1,000 are not issued under the endowment assurance by limited payments.

Increased Premium for Small Policies

In the ease of the policies for less than Rs. 1,000 in addition to the tabular premium, an amount of Rs. 2 per annum per policy irrespective of the sum assured is required to be paid.

Immediate and Deferred Annuity

An immediate annuity policy is not issued:

(*a*) for an annuity of less than Rs. 100 per annum; or
(*b*) where annuity instalments are payable monthly, for a monthly instalment of less than Rs. 20.

A deferred annuity policy is not issued:

(*a*) for an annuity of less than Rs. 100 per annum, or where
(*b*) the annuity instalments are payable monthly, for a monthly instalment of less than Rs. 20 or
(*c*) for a cash option of less than Rs. 1,000.

A retirement annuity policy is not issued for an annuity of less than Rs. 600 per annum.

CLAIMS SETTLEMENT OPERATION

Appendix 18 summarizes the operations of claims settlements. It shows not only the claims intimated during the year, settled during the year, the claims outstanding at the end of the year but *also claims written back.*

It was stated in parliament that, "Life Insusance Corporation has asked the Indian Institute of Management at Ahmedabad to study and report how claims settlements could be expedited". It was also mentioned that, "The LIC Central office has set up a cell to maintain a continuous check over the operations of subordinate offices and speed up claims settlement". It was also said that, "Some 32,000 claims were pending settlement".[6]

Improvement in settlement of claims is claimed by LIC but it may be noted that over 61,000 claims were pending as on March 31, 1977.[7] The number of claims outstanding as on

[illegible] Report of LIC ending March 31, 1977.

March 31, 1980 was 1,20,528.[8]

No doubt efforts are made to eliminate avoidable delays in the processing of claims in the offices and energetic follow-up actions are taken to reduce delays on the part of the claimants in furnising the necessary requirements but the quantum of outstanding claims are still on the high side.

The LIC writes back outstanding unsettled claims. This reduces the quantum of outstanding claims and hence its representation in terms of percentage is lower. A reference to the statement (18) regarding the claims will show the correct position.

It is, however, to be understood that such claims are paid as and when the claimants furnish all the requirements, even after a long lapse of time.

The settlement process of claims has attracted unfavourable attention particularly from the aggrieved parties not only for denial of settlement, but delays in settlement also.

The LIC has to safeguard itself against fraud in the interest of continuing policyholders. According to PIB release a charge sheet was filed by the CBI in the court of the Chief Judicial Magistrate, Salem against a development officer of the LIC, an agent of the LIC, a village Karnam and an authorised medical practitioner of LIC.[9]

It is becoming a matter of concern that in addition to disciplinary cases against the staff—the vigilance department has to deal with increasing number of complaints, mostly against agents, medical examiners, claimants and others.

The number of complaints were 248,310 and 400 for the last three years according to the 21st, 22nd and 23rd annual reports of the LIC.

RURAL BUSINESS

The growth of new business on individual lives completed in urban and rural areas from 1961 to 1980 is shown in Appendix 8.

Table 4 shows the percentage growth of new business (individual lives) completed in urban and rural areas in 1961 and 1980.

[8] *Twenty third Annual Report of LIC* ending March 31, 1980.
[9] *Times of India*, June 6, 1975.

TABLE 4 PERCENTAGE GROWTH OF NEW BUSINESS IN URBAN AND RURAL AREAS

S. No.	*Year ending*	*Business in urban areas*		*Business in rural areas*	
		No. of policies	*Sum assure in million Rs.*	*No. of policies*	*Sum assured in million Rs.*
1.	31.12.61	928,032	4162.0	533.576	1825.9
2.	31. 3.80	1,494,839	21,293.4	591.000	6037.7
		percentage growth			
		161.08	511.61	110.76	469.53

The rate of growth of new business in rural areas is not free from doubt. In this connection the necessity for building up of reliable statistics of rural business does not appear to have been realised by the Corporation up to 1960.

The Estimates Committee of the Lok Sabha made the following observation in their report 1960-61:

> . . . A proper classification of rural business had not been made. This could be done only on the basis of *residence of policyholders* . . . .
> The Corporation classified the business procured through branches located in cities with population of 1 lakh or more as urban and from branches at other centres as rural . . . .
> The Committee understands that from 1960 the Corporation changed the previous basis and is now compiling figures of insurance business written from areas having population of 20,000 and below as rural . . . .
> It is hardly realistic to view all areas having a population upto 20,000 as rural.

The Committee was given to understand that for the purposes of Census the areas having a population of 5,000 and below are viewed as rural.

The Committee, therefore, suggested that the same definition may be adopted in the Corporation and the figure of

rural business may be compiled and published separately, in the Annual Reports of the Corporation. They did not appreciate different standards being applied for determining what are rural areas for different purposes . . . .[10]

In the proposal forms two addresses are given:

1. The native place, and
2. the address to which premium notices are sent. Generally the address to which the premium notices are sent is the place where the policyholder works and, therefore, is the place at which he ordinarily resides. It appears equally appropriate that the place of residence of the policyholder should, therefore, determine the character of his policy.

It, however, appears that the information is not always on the above basis and, as such, the statistics of rural business are not reliable.

It is interesting to note that the Reserve Bank of India uses a different criteria for determining rural, semi-urban, urban and metropolitan centres.[11]

The growth of business in rural areas cannot, therefore, be correctly assessed, from the published statistics. It, must be presumed to be substantially lower.

It is desirable that the basis of determining rural business should also be mentioned in Annual Reports.

JANATA POLICY

In May, 1957, the Corporation introduced the Janata Policy Scheme as a pilot project in certain selected areas in

[10] *Estimates Committee second Lok Sabha*, (134th Report).

[11] Following definitions are given for the purpose of analysing the centrewise distribution of the commercial banks' offices:

(*i*) Rural Centres:	Places with population up to 10,000.
(*ii*) Semi-Urban Centres:	Places with population over 10,000 and upto 1 lakh.
(*iii*) Urban Centres:	Places with population over 100,000 and upto 1,000,000, and
(*iv*) Metropolitan Centres:	Places with population over 1 million.

Reserve Eank of India Annual Report 1976-77, Supplement to the Reserve Bank of India Bulletin, July 1977.

each zone. This was to suit the needs of industrial and rural working class population. Main features of the scheme were:

1. Minimum sum assured was as low as Rs. 250 and maximum Rs. 999.
2. No medical examination was required for persons aged thirty-five years or less.
3. Door to door premium collection.
4. Policy and other documents were issued in regional languages.

It was stated in the 2nd report that the response to the scheme during the year under report was *encouraging*. The Corporation was studying the result of its working under the last two years with a view to its *continuance* on the same or on an *extended scale*.

The third report states: "It has been found from experience that the scheme is not making much progress except at one or two places. As the *Corporation issues* policies for *Rs. 500 and above* under its ordinary plans most people prefer to go in for such ordinary policies in preference to Janata Policies".

[Table 5 shows the business undertaken under Janata Policies.]

The number of proposals and the number of policies were over rupees one crore in the first year and quickly reached the sum assured figure of over two crores in the third year. This could not be deemed to be unsatisfactory.

Conditions of policy have some satisfactory features such as guaranteed surrender value of 40 per cent of the total premium paid excluding the first year's premium. Secondly collection of premium was made from the door-steps of the assured lives.

The rate of commission that was prescribed for the agents is not available from any published reports.

The Janata Scheme was introduced with the full blessings of all the main Trade Union Federations and the inaugural ceremonies were attended by State or central ministers at various places. It was hailed as: *The single biggest factor*

TABLE 5 JANATA NEW BUSINESS

No.	Year ending	No. of proposals	Sum proposed	No. of Policies	Sum assured
1.	31.12.57	22,962	12,492,857	21,208	11,737,268
2.	31.12.58	25,245	16,710,450	24,325	16,051,594
3.	31.12.59	29,339	20,624,208	28,705	20,126,684
4.	31.12.60	24,543	18,688,921	23,919	18,247,450

SOURCE: *1st to 4th Report and Accounts of LIC.*

that can play a significant part in the development of Indian Insurance Industry.

No scheme could have been launched under better auspices.

Yet in the words of a senior officer of the Corporation the scheme 'Proved a Flop'.

This scheme has now for all practical purposes been given up.[12]

Further information regarding Janata policies is not available from subsequent Annual Report and Accounts of LIC.

The reason given out by the LIC is that it is their experience that most people prefer to go for ordinary policies of Rs. 500 and above.

Janata policies are, however, not to be scoffed at. They have tremendous potentialities for rendering social service by providing insurance cover to poor and neglected classes. Voluntary agencies, labour unions and other agencies interested in the welfare and upliftment of weaker sections of the population, can render immense service by encouraging, selling and servicing such policies, at a nominal commission if not as a voluntary service as a part of their multifarious activities[13],[14].

[12]*Report of the Committee of Enquiry into the Expenses of LIC*, April 1969, p. 134.

[13]"... Metropolitan (of America) has lately been phasing out its 'Debit' business finding it no longer profitable, but during the depression and sometimes afterwards 'Debits' accounted for the bulk of the Companies Business and helped it to make an industrial giant. . . ."

'Debit' consisted of list of customers most of them poor, with very

(Continued on next page)

POLICY CONDITIONS

The insurance contract is evidenced by a policy. The conditions printed on the back of a policy or endorsed thereon form an integral part of the contract. The conditions can be broadly grouped as follows:

(*a*) Failure to comply;
(*b*) Safeguard the interest;
(*c*) Additional benefits; and
(*d*) Others.

Failure to Comply

A policy is forfeited if a premium is not paid as mentioned in the policy. Certain safeguards such as days of grace during which premium is payable are prescribed.

If any condition printed or endorsed on the policy is contravened or any untrue or incorrect averment is contained in answer to the questions in the proposal and or withholding of any material information, the policy is deemed to be void. As a consequence no benefit is permitted, and all money that has been paid by a policyholder is forfeited by the Corporation except what is prescribed as privileges under the policy.

Safeguard the Interest

The policy is not to be called in question on ground of misstatement. This is an important condition that safeguards the interest of policyholders. It has been statutorily prescribed under section 45 of the Insurance Act 1938, which has been made applicable to the LIC through Section 43 of the LIC Act of 1956.

Travel, residence and occupations are not restricted.

(*Continued from previous page*)

small policies ranging from $100 to $1,000 in face value, and were offered the convenience of paying their premiums in weekly instalments, in some cases only a few pennies at a time, rather than in lump sum,. . . . "

—*Fortune*, New York, July, 1974, p. 138

[14]". . . .Open an account with just Rs. 3 keep it growing with as little as 50 paise. *Collections made regularly at your door-steps* and earn interest too! Facilities available at selected branches. . . .Punjab National Bank" (a nationalised Bank)—Advt. in *Times of India*, October 25, 1977.

It is of interest to note that earlier policies issued by erstwhile insurers whose business has been nationalised generally contained the following conditions:

> If the life assured proceeds to Europe or America, north of 33 degrees north latitude, his premium will be temporarily reduced from the date of his leaving any port in India, Ceylon or further East until the date of his return to any such port.

Due evidence was required in support of claim of such stay.

The LIC does not allow any reduction in premium.

Guaranteed Surrender Value: The minimum of the surrender value is quoted at 30 per cent of all standard premiums paid excluding the first year's and all extras and additional premiums for accident benefit, double accident benefit, extended disability benefit, subject to conditions such as the payment of at least *three annual premiums.*

Loans: Loans are allowed within the surrender value. It is ordinarily restricted to 90 per cent of the surrender value when a policy is in full force for the sum assured and 85 per cent of the surrender value when a policy is paid-up, being in force for the reduced sum assured.

Before grant of any loan LIC has to be satisfied as to the satisfactory title of the person to whom loan is to be given. Other conditions are also insisted upon. These are quoted below: (*a*) The policy shall be assigned absolutely to and held by the Corporation, their successors, and assignees, as security for the repayment with the advance(s) and of the interest thereto and of all expenses which may be incurred in connection therewith. (*b*) The advance *shall not be repaid* within a period of six monhs from the date of which the relative loan is settled. (*c*) Interest on the advance(s) shall be paid compounding half-yearly to the Corporation, their successors, and assignees, at the rate to be specified by the Corporation in respect of each advance when the relative advance is made, the first payment, of interest to be made on the date of the next policy anniversary, or on the date six

months before the next policy anniversary, whichever immediately follows the date on which the relative advance is made and every half-year thereafter. (*d*) When called upon, the payment of the advance(s) with all interest which may be due thereto shall be made on being given three months' notice to that effect. (*e*) The Corporation, their successors, and assignees, shall not be bound to accept repayment of any of the advance(s) unless tendered in full. (*f*) In the event of failure to repay the advance(s) when required or to pay interest on the due dates as mentioned or within one calendar month after each due date respectively, the policy shall be held, without the necessity of any notice being given, to be forfeited to the Corporation, their successors, and assignees, and the Corporation shall be entitled to apply the surrender value allowable in respect of the policy in terms of their regulations and conditions in payment of the advance(s), interest and expenses, the balance, if any of such surrender value to be counted for the party entitled thereto. (*g*) In case the policy shall mature or become a claim by death when the amount of the advance(s) or any portion thereof shall remain outstanding the Corporation shall be entitled to deduct such amount together with all interest up to date of maturity or of death as the case may be from the policy money and the balance only shall become due and payable under the policy.

Proof of Age: The premiums are calculated on the age of life assured as declared in the proposal. As such a satisfactory proof of age or birth date is essential. The proof of age is, however, not insisted upon at the time of issue of a policy, though the absence of proof causes annoyance and embarassment subsequently. Sometimes the proof is given and accepted after a policy becomes a claim. This may result in the sum assured being reduced or the additional premiums due together with interest at 7½ per cent compounded half-yearly, etc., are deducted from the sum assured.

Suicide within one year of the commencement of the policy voids a policy. The interest of a third party is, however, protected subject to certain conditions.

Days of Grace: A period of fifteen days for monthly premiums and one month or thirty days for quarterly, half-

yearly or yearly premiums are allowed; and if no premium is received within the days of grace the policy lapses.

Non-Forfeiture Regulations: After three full annual premiums are paid the policy will not be wholly void. This privilege is hedged by specifying that the paid up value with any attached bonus be not less than Rs. 100 for policies for sum assured of Rs. 1,000 or more, and be not less than Rs. 50 for policies of less than Rs. 1,000.

Revival of Discontinued or Lapsed Policies: A policy may be revived during the life time of the life assured within a period of five years from the due date of the first unpaid premium and before the date of maturity. This is subject to further conditions: (*a*) Payment of interest on outstanding premiums if revival is done within six months from the date of the last unpaid premium.[15] (*b*) After six months, evidence of health and habits of the life assured and other evidences regarding personal or family history or occupation and a medical report are required together with payment of premiums in arrears with interest compounded half-yearly.

Additional Benefits

The policyholder on payment of additional premiums as prescribed may avail of disability benefits or accident benefits.[16]

Other Conditions

These relate to assignment and nominations. It also covers how quantum of claim is arrived at and how it is to be paid.

Settlement Option: If the sum assured is allowed to remain with the Corporation, it is paid to the assured or the beneficiary in annual, half-yearly, quarterly or monthly instalments as per Table 6 for each Rs. 1,000 payable.

A slight variation is also made in respect of the payment of the claim amount by instalments as follows.

For each Rupee 1,000 payable in respect of a claim, a

[15]This condition has been changed to one year (*vide* Chairman's Report on the valuation as reported in *Times of India*, dated October 29, 1977).

monthly instalment of Rs. 5 is made, and a lumpsum is paid at the end of the specified period.

TABLE 6 SETTLEMENT OPTION

Sr. No.	*Amount of each yearly instalment*	*Amount of each half-yearly instalment*	*Amount of each quarterly instalment*	*Amount of each monthly instalment*	*Specified No. of years*
(1)	(2)	(3)	(4)	(5)	(6)
1.	216.73	109.68	55.18	18.47	5
2.	121.52	61.50	30.94	10.35	10
3.	90.40	45.75	23.01	7.70	15
4.	75.29	38.11	19.17	6.42	20
5.	66.57	33.69	16.95	5.67	25
6.	61.04	30.89	15.54	5.20	30

Conditions and privileges that form part of a policy were evolved as a result of experience in life insurance business.

As a precautionary measure and to eliminate any misunderstanding of the restricted scope of a policy, the attention of a policyholder is drawn by endorsement of a clause as follows:

> You are requested to examine this policy and if any mistake is found therein to return it immediately for correction.

Misunderstanding ordinarily arises because of inadequate explanation given by any one of the multitude of agents/development officers who may not be fully conversant with all the implications of queries by a prospective proposer or may not be aware of the changes that have been introduced by LIC from time to time and hence inadvertently or otherwise communicate an erroneous impression.

A little reflection will bring out the futility of bringing to the notice of each policyholder the conditions which are printed on the back of each policy. The impression that prospective policyholders gather and which lingers with them

is what is told to them by the agents, development officers and other officials of the Corporation. They realise the true meaning and restrictions later and more often than not become dissatisfied and join the increasing group whose policies are either forfeited or subsequently lapsed or surrendered.

So far we have drawn attention to certain broad aspects of organisational set-up, methods of remuneration for acquiring business, operational factors, valuation, bonus and settlement of claims, rural business including Janata policies and terms and conditions of policies.

Certain practical aspects of procedures are now examined.

The acquisition of surrender values by policies has been revised and raised from the minimum two years payment to three annual premiums. The acquisition of surrender value is further subject to limit of Rs. 100 for a policy of Rs. 1,000 and more and Rs. 50 for policies less than Rs. 1,000. In the case of lower denomination policies of long duration, this may require payments of more annual premiums than even three years.

Earlier policies could be made paid-up after two annual premiums were paid. It has however been changed to at least three annual premiums to the disadvantage of the policy-holders.

The period prescribed for loan entitlement is now five years which is longer than what the LIC permitted during its early years of existence. This restriction has been prescribed for policies issued on and after first of April 1973.

Although the bonus is declared every two years, when valuations are held, it only vests in continuing policies after the policies remain in force for five years. In case of a claim earlier due to death, which are few, this restriction does not apply.

The extra premium paid for 'with profit' policies over 'without profit' policies entitles one to bonus or 'share in surplus' declared at each valuation. The bonus could earlier be cashed after each valuation and the sum received provided a good return on the extra premiums paid. This was associated with efficient management and inspired confidence in the conduct of business.

The underwriting of the Janata Policy which was commenced with great deal of fanfare was discontinued within a short period of 5 years. It would appear that the management, office and field staff were unfavourably disposed towards such business. Efforts to increase rural business through such set-up is unlikely to be taken up with enthusiasm now, after a lapse of two decades.

The total business of proposals and policies that do not run their normal course is given in Appendix 21.

Handling of this large infructuous business every year adds to the management expenses and payment of overtime. Presumably it also attracts payment of commissions to agents and credit towards fulfilment of business target for the agents and development officers, where even one annual premium is not received. This also leads to delay in issuing of policies, say within the 30 days as required by the Stamp Act. The violation of Stamp Act when committed may not attract attention immediately but is not desirable. The government agency should in particular be conscious of their responsibilities to observe the statutory time limit prescribed under different Acts.

It is seen from the annual reports of accounts that expenses in respect of foreign business is higher, though the policies issued are far larger denominations which ordinarily reduces the cost of acquisition, maintenance, administration of such policies. It is not clear whether the cost of overseas tours are in connection with the foreign business. The foreign tour expenses are shown separately, hence it is likely that these are not included in assessing the cost of underwriting foreign business.

The extra premium receipts under accident disability clause is not separately available nor claims that have been paid are shown separately in the published reports. However, a provision of Rs. 2,04,00,000 has been made in the 12th valuation report ending 31st March, 1979. It has been stated that no table of sickness or accident were used for this purpose.[17]

[17]Abstract and statement in respect of 12th valuation of assets and liabilities as on March 31, 1979, p. 7.

Appendix 19 deals with outstanding claims for different periods.

The outstanding claims presumably consist of some death claims, some matured claims that have run the full period contracted for, and paid-up policies that have also matured. Information is not readily available from published records of each category separately. The LIC had asked the Institute of Management, Ahmedabad a few years earlier to advise them as to how claim settlements can be expedited. Their advice is also not available from the published reports, but it seems the LIC has not been able to improve upon their existing procedures so far. The number of outstanding claims are increasing and the sum assured that have remained as a part of life fund appear to amount over Rs. 48 crores. This problem requires to be tackled vigorously.

Regional institutes and journals will no doubt, suggest ways to help LIC and such policy holders for prompt settlement.

Attention is now invited to (Appendix 22). Management's remuneration and agents' remuneration which are two main items of expenditure in management expenses. It may be noted that bonuses, overtime and incidental other subsidies are not included.

Commissions paid and bonuses (additional commission) are given on business introduced. It appears that commission is paid where even one full year's premium has not been received during the relevant financial year. In the payment of commissions no adjustments appear to be made for policies not taken up, forfeited or lapsed, surrendered or made paid-up. The methods of remunerations including commissions as prescribed in the terms and conditions of agents, require looking into.

Table 7 shows monthly salary cost per employee.

It may be recalled that the LIC had initially paid a sum of Rs. 60 lakhs per month at the time of its formation to integrate the staff into a common pay scale.

The figures will further rise for subsequent years due to payment of bonus.

Policyholders often complain lack or poor response to communications, such as loan operations, change of addresses,

etc. Special arrangements have, however, been made in metropolitan cities to attend to such complaints.[18]

The practice and procedure of LIC has become cumbersome and policyholders often give up pursuing in despair.

TABLE 7 SHOWING MONTHLY SALARY COST PER EMPLOYEE

Year	*Class I*	*Class II*	*Class III*	*Class IV*	*All Classes*
1960	773	387	244	131	270
1971-72	1621	1116	682	355	793
1978-79	2820*	2333*	1562	811	1653*

*Includes Bonus paid to class I and II for the year 1975-76 and 1976-77.

SOURCE: *Report of the committee to Review the Working of LIC* (Chairman, Shri Era Sezhiam), Appendix 46, Sept. 1980.

The situation gets further aggravated by pen-down strikes, go slow, demonstrations, hartals by all classes of staff including agents to further their sectional interests, which jeopardise the interests of the policyholders.

LIC has been in existence now for nearly twenty five years. It provides insurance protection to about 14 million persons as against estimated 3 million persons under nearly five million policies which it took over when it was constituted. This is at present about 10 per cent of the male insurable lives. The statement of objects and reasons for nationalisation were:

1. to ensure the absolute security to the policyholder in the matter of his life insurance protection;
2. to spread insurance much more widely and particularly to the rural areas;
3. to add a step in the direction of more effective mobilisation of public savings; and
4. to guarantee all the contracts of assurances executed by the Corporation.

The performance of LIC has to be judged against the

[18]*Twenty second and Twenty third Annual Reports and Accounts of LIC.*

above background. The mortality experienced or the interest earned on funds are satisfactory. Management expenses are rising and expenses pertaining to agents and development officers are substantial. Hence restriction and restraint has to be put on commissions. This should now be done to bring it at par along with other means of savings where commission rates are lower. LIC can also reduce its expenses by encouraging group insurance, non-medical business, salary saving schemes, direct individual business, and encouraging annuity or pension business. High rates of commission result in rebating, prohibited under section 41 of the Insurance Act, 1938.

Results of high power selling lead to discontinuance and forfeiture of policies. Details are given in Appendices 20 and 21. The infructuous effort does not serve the cause of insurance and results in avoidable expenses.

Exposition and Solutions

WHEN parliament set up LIC as a monopolistic public undertaking, it was argued and believed that elimination of competition and the malpractices that competition has given rise to, would lead to:

(*i*) Better and more economic management of the Business of life insurance.
(*ii*) Reduction in administrative expenses.
(*iii*) Improvement in the quality of service.
(*iv*) Increase in volume of business.
(*v*) Maximisation of social advantages that insurance can provide through higher returns on investments of life fund, consistent with safety and liquidity of the invested funds.

Considering the first and second point together it would appear that reduction in premium rates would be a natural outcome. It would also lead to progressive simplification of policy conditions and streamlining the conduct of business.

The third point, *i.e.*, improvement in the quality of service would not only include prompt and efficient replies to queries but also simplification of conditions of policies, which would limit such queries. Certain services such as loan facilities, continued insurance cover during the periods of default of premium payments and procedures for prompt settlements of death and maturity claims need streamlining to reduce correspondence.

The fourth point, *i.e.*, the increase in the volume of business should not only be applicable to underwriting of new business but also preventing business at present going out of the books in substantial measure, other than claims, because

loss of such business results in infructuous expenditures which adversely affect the continuing insurance business.

The fifth point, *i.e.*, the maximisation of social advantages that insurance can provide is to be judged by the steps taken and success obtained to bring the message of insurance to every home at a minimum cost and in an intelligible manner so that the benefits are easily understood and taken advantage of in the remotest corners of the country. It should also include the channelisation of investments of life fund to realise socially purposive objectives, according to priorities. The security and adequate return of the life fund is of paramount importance as it is the life's savings of millions of policyholders to achieve certain objectives and is trust money.

The progress of the nationalised life insurance business has, therefore, to be judged by the rate of its progress towards the realisation of the goals it set for itself.

It is also essential to take periodic stock of the situation to determine modifications in policies enunciated earlier and to take other steps in the light of the socio-economic priorities for the development of the country.

LIC has already become one of the largest insurance companies in the world, during its existence of just over two decades.

However, it has been able to sell insurance to a very small sector of the wage or salary earning class, say about 10 per cent and say about 20 per cent of even the income tax paying class, and has provided insurance cover to only a fraction of the growing adult population.

The clamour of the policyholders of LIC that expenses are to be controlled and all items of expenditure are to be kept under constant check and periodically reviewed is reasonable.

Even in the west, it has been realised that excessive expenditures are to be reduced to provide wider and increasing insurance cover to all eligible persons at lower rates of premium.

Regarding the premium rates attention is invited to Appendices 13 and 14 (mortality experienced) and (additional interest earned) by LIC during the valuation periods.

The above two factors show a net plus increasing advantage.

Appendix 15 referring to the expenses provision in valuations shows that the expenses have been rising and are consistently higher.

It may be recalled that the third factor of 'Loading' in premium rates not only provides for the expenses anticipated but also provides for a modicum of profits (surplus) to be disclosed. In the case of LIC, ninety-five per cent of the profit is to be distributed equitably amongst different classes of eligible policies and the balance of five per cent is placed to the credit of the Central Government, who have stepped into the shoes of the erstwhile shareholders and thus justify their claim to the share in valuation surplus in view of their guarantee as to payment in cash of all policies issued and all bonuses declared in respect thereof (Section 37 of LIC Act 1956).

The valuations are not done strictly on the basis of provisions made in the premium rates. The favourable effects of mortality experience and higher interest rate earned is offset to a substantial extent by expenditure in excess of that provided in 'Loading' at the time of calculation of premiums and provision made in periodic valuations.

The three factors—mortality rates, interest rates and provision for expenses and profits—are so adjusted during each biennial valuations that the profits (surplus) disclosed show a steady rise and avoid fluctuations in the rates of bonuses declared.

Here a reference is made to Appendix 22 which analyses the expenses of management. It will be seen therefrom that the expenses on account of commission or remuneration of the agents are substantial.

Expenses pertaining to agents and development officers are enumerated below:

1. First year and renewal commission.
2. Bonus Commission.
3. Gratuity.
4. Housing facilities.

5. Lower rates of premium on policies on their lives, and
6. Conveyance and telephones, etc.

In addition to their salaries development officers are further remunerated on the business conducted by the agents under their charge and receive bonus, housing facilities at subsidised rates, conveyance and telephones and lower rates of premium on policies on their own lives. It is not clear whether all expenses enumerated above are included under expenses of agents and development officers.

Under certain specified conditions the renewal commissions continue to be paid to the dependents for some years when no further new business is received through the agents or the business falls short of the target.

A suggestion for restricting the rates and period of commission statutorily prescribed appears to be desirable. It should be comparable to rates prevalent or prescribed for other systems of savings. Further restrictions have been suggested in the interest of the business and to prevent encroachment (dissipation or eating away) into the savings of the policy-holders.

Expansion of the group insurance business, non-medical business, salary savings scheme and 'direct' individual business have to be given special encouragement.

It may also be noted that the present higher rates of commission result in rebating widely at present, which is prohibited under Section 41 of the Insurance Act, 1938, applicable to the LIC.

The retention of this provision Section 41 in the Act has lost its justification as no one has been convicted under this section since its introduction more than 40 years ago.

The reduction of commission rates to bring it on par with commission rates payable for other systems of savings will prevent rebating but will not reduce the remuneration retained by the bulk of agents as at present. When substantial commission is credited to the agents' accounts an enquiry is desirable to determine whether such agents rendered competent services to the policy-holders and the Corporation was satisfied with the business introduced *vis-a-vis* their normal experience.

In the interest of rapid healthy growth of insurance business, particularly in the rural areas, and in the economically weaker sections of society, reduction in the rates of commission on the premiums for the first year and two or three subsequent renewal premiums receivable, merits serious consideration.

OPERATIONAL EFFICIENCY

To increase operational efficiency of life insurance the following suggestions are made:

Persons in Hazardous Occupations

Additional amount of office work is called for where extra premium is levied to cover the extra risk either because of employment in hazardous occupations or certain inherent or transitory disability to be covered on an individual life. LIC has discontinued charging extra premiums in respect of employees in certain hazardous occupations giving the reason that the premium for the extra risk should be shared by all policy holders.

In equity expenses to cover the extra risks due to employment in hazardous occupations should come from the contributions by such industries and from employers of such occupations. The employees are mostly selected because of their good health to withstand the hazards of such occupations.

Impaired Lives

Similarly, the extra premium for impaired lives should come out of a 'special fund' created out of the government's share of valuation surplus or welfare contributions made by the government to encourage such people to insure on equal terms with other first class lives.

The incidental additional advantages in the two above cases will be simplification of maintenance of accounts and its day-to-day administration. Study of analysis of assessment of the risk, made in separate groups of risks, will quickly bring out the additional risk element in different occupations.

Loan Operations

Most loanees find that the existing procedure for obtain-

ing loans from LIC against life policies is cumbersome. To avoid hardship to policyholders, it is suggested that loan operations against policies be encouraged through banking system. The pledging of the policy for loan operations can be simplified by making provision in the Insurance Act of 1938, and it should be made applicable to policies issued and managed by LIC.

The banks may advance higher amounts than surrender or loans values, say, up to 80 per cent of the face value of policies pledged, to their customers, who have had an account for a minimum of three years banking business with the particular branch of the bank. In case higher loans are required, the banks may ask for additional security of two years' premium for a term insurance policy on the life of a loanee not exceeding the face value of the policy during which the outstanding loan amount is to be brought within the prescribed surrender value of the policy.

Previously policies could acquire paid up value after two annual premiums were paid. The conditions have now been changed and policies do not acquire any paid up value before three years' premium has been paid.

Surrender values and any reserve of policies that have been discontinued and which for any reason whatsoever have not been paid, should be kept, in a separate account and should not form part of the life fund. This will cover a large volume of discontinued policies which are shown as forfeited/lapsed.

This will enable a careful examination of the causes for discontinuing the policies and steps required to check their discontinuances. In case of revival, the reserve in respect of the affected policy should be transferred back to form part of the life fund. The left-over sums in such a fund together with interest earned thereon should be utilised according to the directions of the Central Government under clause 21 of the LIC Act of 1956.

Attention is invited to policies not taken or forfeited without acquiring paid-up values (see columns 4, 5 and 6 of Appendix 21) or to the extent that the insurance cover is lost after a policy is made paid-up. It is not clear whether commission to agents and credit to the development officers

have been allowed in respect of such policies also.

It is noted that policies are often issued which are not complete in all respects, particularly proof of age or mentioning names of beneficiaries, or leaving questions unanswered or with dubious replies. It is suggested that the shortcoming in respect of such policies, *i.e.*, replies to all questions in proposal and allied documents should be cleared within a period of three years.

This may be possible if payment of the commission and credit for business are deferred till the deficiencies are removed. If the shortcomings are not cleared within a period of three years, the LIC should have the option to make the policies paid-up by the end of five years with due notice and no commission and credit given for such business.

It is also suggested that all policyholders be given a second, if not periodical, medical examination so that any impairment in health or identification of any incipient disease is brought to the notice of the insured. This will also act as a precursor to the national health service.

The second medical examination be made after two or three years of the existence of the policy.

The medical examination should be conducted by a doctor or a panel of two or more doctors—other than the one who initially examined the proposer. This will be an important social service at a small cost which will result in healthy working life, increased longevity and make life insurance popular. The annual medical examination fees paid by LIC are given in Appendix 22, Column 22.

The State Insurance Corporations may vie with each other to introduce the system of second and subsequent medical examinations to make insurance popular by expressing their interest in the lives assured and helping the assured to lead a healthy life, thus increasing their longevity. The State corporations will also benefit themselves through longer retention of resources already mobilised.

After satisfactory second medical examination, or by the end of five years, the policies become *indisputable* except on grounds of fraud.

To improve upon the existing practice of remunerating agents, it is suggested changes be made in the conditions

applicable to all new agents.

To eliminate the practice of 'rebate', all new agents should be given commission rates comparable to other saving, say 2-2-2-2 and 1 per cent of the annual premiums fulfilling the target of clean policies, (*i.e.*, complete in all respects) or on which there are no queries outstanding. Additional commission (bonus) may be allowed subject to the policies remaining in force till they acquire surrender or paid-up value.

Section 41 of the Insurance Act, 1938 has been examined in the Chapter on Law, and it has been suggested that this should be eliminated from the Act. The present practice of agents sharing their commission with the clients should be legalised.

Settlement of Death and Maturity Claims

Attention is invited to Appendix 19 relating to outstanding claims on death and on maturity for the first two years.

DEATH CLAIMS

Regarding death claims the following suggestions are made:

Less than 5 Years' Duration

On intimation of claim in respect of a policy of less than five year's duration, one-tenth of the face value should be immediately put into the bank account of the claimant; and within six months a further one-tenth of the sum assured should be put in the bank account irrespective of any investigations which may be continuing to determine the validity of the claim or suspected fraud.

The principle of utmost good faith demands that the LIC must react sympathetically and a part of the sum assured must be made available to the dependents and beneficiaries to meet their immediate requirements. The suspected fraud or any shortcomings of the policy should be expeditiously investigated. Enquiry should also cover all concerned who secured the proposal and completed the formalities resulting in issuance of the policy, *i.e.*, the agent, the development

officer/the branch officials concerned and the medical examiner, etc.

Five Years' Duration

When a policy is in existence for more than five years but less than 10 years, the percentage of immediate deposit to be put in the bank account should be two-tenth of the face value of the policy, and within six months a further two-tenth of the face value be made available through a bank account of the claimant.

More than Ten Years' Duration

When a policy is in force for more than ten years and a claim arises, one-fourth of the face value should be made available immediately for the claimants through the bank account. A like sum should be credited to the bank account within six months. The sums paid on account are liable to be recovered in case of fraud is detected subsequently. The above payments will mitigate the adverse effects 'Bura Din' (बुरा दिन) to some extent and will contribute to restore confidence in the insurance business. Later, as a result of experience, the above percentages may be revised upwards.

MATURITY CLAIMS

The delays in settlement of maturity claims seem to be unjustified. On the analogy of provident fund accounts, etc., the outstanding problems pertaining to a life policy should be looked into and completed at least one year prior to the date of maturity.

One can stretch the point and say that policies that are in force for five years or more should be carefully looked into and no lacunae allowed to remain in: (1) age admission, (2) nominations, (3) assignments, and (4) any changes in address which may delay the settlement of claims. It would be in the interest of the policy-holders and their dependents if the name of a nationalised bank together with account number of a nominated beneficiary or assignee is obtained and kept with the existing policy papers. A provision may be made in the proposal forms and in the policy for such information.

It is suggested that, whatever be the timing of settlement

of death and maturity claims, the LIC should be directed by the government to pay interest, say at a rate of simple interest of 6 per cent calculated from the date the sums have become due till the date of the issue of a cheque settling it in full. If, however, the period is delayed beyond one year, the rate of interest since beginning should be raised by another 1 per cent for every completed period of six months restricted to the maximum bank interest rates for the period payable by the nationalised banks.

In passing it may be noted that at the time of selling a policy, all calculations of benefits are done on the basis of prompt settlement and no account is taken for loss of interest and other expenses that are required to be incurred to settle the claims.

The payment of interest should come out of the government's share of the valuation surplus. The acceptance of the suggestion would be an act of *uberrima fides* in the conduct of the business and the government will be able to oversee the claims settlement operations.

Section 47(A) of the Insurance Act, 1938, which covers disputes relating to the settlement of a claim on a policy assuring a sum not exceeding Rs. 2,000 is applicable to LIC.

The average policy issued by an Indian insurer in 1939 for policies under-written in India was Rs. 1,410. Since then the average size of a policy of LIC under individual assurance has risen to above Rs. 13,000. Hence amendment to this section to cover policies assuring sum assured up to Rs. 25,000 is desirable.

It would be advisable to set up a statutory tribunal to decide claims say up to Rs. 25,000 (face value) sum assured and below. Its offices may be at one or more places, depending upon the volume of cases that may be referred to it. Retired judges, senior lawyers may be appointed to preside over the tribunals.

LIC should ensure that where any policy is to be disputed, *suo moto*, it is referred to special court or tribunal mentioned above to determine whether any policy conditions, other shortcomings justify such a step. No court fee should be levied, say up to a face value of sum assured of Rs. 25,000 or as prescribed and the cases disposed of expeditiously. The

interpretation of the clauses will help in understanding the principles of the insurance business, in the light of the principle of *uberrima fides* or 'Utmost good faith' and will help spread of insurance business by infusing confidence in the minds of the insuring public.

Section 47A of the Insurance Act may also be suitably modified to ensure that any disputed sum of money in respect of policies of LIC are deposited in such a court or tribunal and continue to earn interest.

LIC should concentrate on group insurance, non-medical business, salary saving schemes, insurance on female lives, direct business and annuities. LIC should also encourage 'direct business' in 'with-profit policies' which should carry a rebate of premium say 7.5 per cent throughout the duration of the policy when such policies are purchased from the LIC without the intervention of any agents or development officers, or the policyholder desires to deal directly with the LIC. This will give a fillip to such business and it will be in the interest of the policy holders to ensure that all queries in respect of these policies are met in full to avoid any complications arising at the time of claim or maturity of the policy.

Fortynine million extra jobs are aimed to be created during current Plan period and more employment opportunities will become available thereafter.

LIC should also revise rates for pension or annuity business to make them realistic and attractive so that individual funds may be entrusted to it for socially purposeful investments and to enable such individual contributors to enjoy the pension or annuity when they retire from active work.

Policies that can be issued as certificates with the briefest conditions printed would be appreciated by the policyholders and facilitate work in the LIC offices.

The Certificate of Insurance mentioned above should have a photo and identification marks in addition to bank account number and other relevant details of nominees or assignees. There should be additional space for new photos to be affixed say five years before maturity. It will be in the interest of the policyholders to provide the same, if called upon.

Two additional duplicate copies of photos taken each

time should be kept together with the relevant accounts, with the bank or a branch of the insurance office and the head office of the insurance corporation for prompt and easy identification. Settlement of claims will be facilitated and administration of insurance business can then be progressively adjusted to be ultimately conducted on the basis of 'Simple Administration'.

The policy conditions, which would have run into more than fifteen closely printed pages of this book, need to be printed separately and should be available as a priced publication. This would reduce the bulk of the policy. Over 20 million policies are in force and not more than a few thousand may have glanced through the policy conditions. Policyholders ordinarily depend on the interpretations given by the agents and/or the development officers which may some time inadvertently run counter to what is prescribed.

The brief conditions of policies should be prominently displayed in all corporation offices of insurance.

All the banking conditions are not printed *in toto* and issued with pass-books, which evidence the transactions that are made between an individual and the banks. There are differences in operational procedures affecting depositors, etc., amongst nationalised banks.

Life Insurance business as it is now organised requires high pressure salesmanship and undue influence. *It is said that insurance is sold and not purchased.* The LIC as seller has, therefore, to employ a large number of agents and development officers and do a great deal of publicity to underwrite business. These factors cost considerable sums of money out of the premiums (*i.e.*, their savings) paid by the policyholders,.

The result of high power selling may be observed from Appendices 20 and 21.

1. Proposals that do not materialise in any policies.
2. Policies not being taken up.
3. The policies that are forfeited.
4. The sum assured that are lapsed, *i.e.*, surrendered and decreased.

It will be obvious that handling the above amount of proposals and policies requi res considerable number of staff in the office, accommodation, other paraphernalias of accounts and records, considerable paper work, payment to agents, development officers, doctors, stamp fees, postages, etc. The above also has an adverse effect on the remaining business of the policyholders and must have an effect on the expenses. This will also be obvious from Appendix 16 of overall and renewal expense ratio, in the annexure.

It is suggested that trained and qualified persons be employed by employers of large groups of employees to encourage group insurance schemes, medical and non-medical schemes, salary saving schemes and other means of savings. Such qualified persons could also look after the interests of the employers and the employees in respect of policies taken from the insurance corporations.

The banks which are increasing their activities in the rural areas and those who have trained and qualified insurance persons on their staff should also be appointed as agents to secure life insurance business for their constituents either as direct policies or on payment of low commissions and for encouraging 'Group Insurance Schemes' on a profit sharing basis.

Insurance schemes in respect of the depositors in savings bank accounts or other fixed deposits should be encouraged.

The need for economy is of paramount consideration. The factors that enter into the expenses of management of life insurance business have to be examined critically and independently and every factor, major or minor, has to be properly assessed and revalued periodically.

In this context, it is suggested that the investment budget and balance sheet of the LIC be separately drawn up to include all expenses of staff, accommodation, incidentals, etc., and overheads pertaining thereto, as well as the tax payable at source, the expenses incurred to adjust the same and payments of additional sum or claim refunds on that account.

The above should be divided into two different investment portfolios: (*i*) Investments in the stock-exchanges, and (*ii*) Loans given to Central Government, State Governments,

corporations/municipalities, electricity boards, housing boards, etc.

This would enable better examination of its investment portfolio and the gross and net return therefrom.

As a subsidiary to the above, it would be desirable to have a separate balance sheet and revenue account in respect of housing development, building activities, loans on mortgage of properties, financing schemes on mortgage of property, own your own apartments, public housing, its own office buildings and house property and commercial buildings complex at Bangalore. The returns from such investments can then be correctly ascertained.

In particular, investment, expenses and income in respect of its own housing property and office buildings, whether occupied by itself as accommodation for office use or residential purposes should also be separately drawn up.

It will then be possible to determine whether or not LIC is getting adequate market returns on its building investments and on its own housing properties.

Similarly, it should be brought out whether mortgage loans with their legal expenses, write-offs, and the cost of overheads due to the attention required of the senior insurance officials, provide a sound and adequate return and advance the social objectives aimed at.

The investments of insurance funds through 'Call Money' and 'Underwriting new issues of shares' appear to be doubtful unless covered under Section (2) or permitted under Section (1)(q) of the modified Section 27 A of the Insurance Act 1938 made applicable to LIC.

The investments which show a nil return of interest or dividend or show a return lower than the interest rates assumed in the valuations should be separately drawn and attention invited thereto. This will put the LIC on its guard in respect of such investments.

The expenses of total management, distributed amongst each relevant broad sector, will then become available, and facilitate sectoral studies by social scientists, specialised journals, and help legislators and the government to examine what changes are necessary in the existing policies for investment of life-funds for furthering social objectives.

Specialisation will become easier and modification or re-arrangement of the functions of LIC facilitated. This will also be a good guide for the future State Insurance Corporations suggested to be set up.

The periodical agitations by insurance agents and development officers, class I officers and staff of LIC is a matter of concern not only for them but also for the government, the continuing policyholders and all social scientists and others interested in sound business operations so that life insurance reach and cover all insurable people.

To get the maximum value out of the saving that insurance can provide it is essential that the policyholders consistently and continually benefit. This would mean not only security of the policy-money including bonus already declared, but higher bonuses in future and a share in the assets created, particularly housing plots and/or houses or flats built by LIC in the newly developed urban areas to the extent that the policy-money can be exchanged for it.

The surplus funds of the insurance coporations should be deposited with the Central Government who would channelise them through specialised agencies for development purposes and guarantee their safe return with interest to the life insurance fund.

The rate of interest on the fund deposited with the government should be statutorily prescribed or provided for by executive orders of government as in the case of postal life insurance fund or as for the deposits made in the general provident fund accounts.

The investments in the stock exchanges should be made, preferably through the agency of Unit Trust of India, and/or through brokerage firms set up by government in the public sector.

Attention is invited to Section 37 of the LIC Act quoted below:

> The sums assured by all policies issued by the Corporation including any bonuses declared in respect thereof and, subject to the provisions contained in Section 14, the amounts assured by all policies issued by any insurer the liabilities under which have vested in the Corporation

> under this Act, and all bonuses declared in respect thereof whether before or after the appointed day, shall be *guaranteed as to payment in cash by the Central Government.*

To avoid reduction in the value of the policies issued by the insurers, whose business has been taken over by the Corporation, as provided in Section 14 of the LIC Act, the government gave a grant of seven million rupees (Rs. 70,00,000) at the time of nationalisation.

Such a contingency may not arise in respect of policies of LIC, unless the expenses are further allowed to increase and become exorbitant. This is because most policies are 'With-Profit'—which means that policyholders pay an 'Extra Premium' the return on which either as 'Additional Insurance' or 'Reversionary Bonus' is not guaranteed and is subject to fluctuations.

To eliminate even a remote possibility of loss the LIC Act provided Section 26 which prescribes as follows:

> The Corporation shall, once at least in every two years, cause an investigation to be made by actuaries into the financial conditions of the life insurance business of the Corporation, including a valuation of the liabilities of the Corporation in respect thereto, and submit the report of the actuaries to the Central Government.

From the twelve actuarial reports undertaken by the LIC so far it is observed that only six actuaries have valued the liabilities of the LIC since its inception and it is not always that the reports have been signed by even two of them. It may also be noted that these actuaries are employees of the LIC. The wording of Section 26, presumably envisages:

1. More than one actuary to conduct the valuation report at each valuation.[1]

[1]Amendment made by notification in August 1958 through Ministry of Finance Notification G.S.R. 734, dated August 23, 1958 relates to the Insurance Act 1938.

2. It may also be inferred that such actuaries must be independent of LIC and not its employees.

The Life Fund has increased from Rs. 4,000 million to over Rs. 58,180 million.[2] The Central Government has assumed a heavy responsibility, hence the number of actuaries doing valuations who should submit their report to the government,[3] should be at least three and must preferably be independent of LIC.

The employment of a large number of actuaries in field or supervisory work is commendable. However, this should be without prejudice to senior actuaries being available to conduct the valuations of LIC.

No policyholder wishes to lose the insurance cover and his savings. Financial problems sometimes compel a policyholder to spend money on other urgent items, and hence he is unable to pay the insurance premium. The insurance cover for such a policyholder is, however, most needed at such a juncture.

Financial worries like other worries are apt to be sorted out during the course of say two years. The continuance of the policy thereafter will be assured to the mutual advantage of the insurance corporations and the individual. Therefore, the following suggestions are made:

(*i*) To convert the policy as paid-up at the end of a two year period during which the due premiums are not paid, after deduction of the premium for term insurance for two years.

(*ii*) Alternatively, such a policyholder may be entitled to continue, on payment of term insurance premium, so as to have the term-insurance cover for the full face-value of the policy (without profit) for the remaining term not exceeding beyond the age of 50 or 55 years or (5 or 10 years lower than age of maturity) and also receive the paid-up value at the end of the period as per original contract. He may

[2]*Twenty-third Report and Accounts*, March 31, 1980.
[3]Sec. 29 of the LIC Act 1956 is also relevent.

claim the surrender value earlier if he desires to discontinue the term insurance cover.

(*iii*) The above term insurance cover be restricted to Rs. 15,000 under Endowment and Whole-Life Policies on individual lives, which constitute over 90 per cent of the total business on individual lives. The amount of term-insurance may be revised upwards in the light of experiences, and extended to other types of policies at a later date.

To control expenses of administration, it is suggested that only one type of policy, *i.e.*, participating 'with profit' should be issued. If a valuation discloses any surplus it should be equitably distributed amongst all policyholders either in the shape of reversionary bonus or additional insurance cover, as was done by the Postal Life Insurance Fund.

The PLI issues, one class of policy. When the first valuation disclosed a surplus in 1907, the face value of the sum assured was suitably increased. Since then the surplus is distributed amongst all policyholders as reversionary bonus.

The following State controlled State Insurance departments also issue only 'with profit' participating policies:

1. Andhra Pradesh Government Life Insurance Department.
2. Government of Jammu & Kashmir State Insurance Fund.
3. Karnataka Government Insurance Department.
4. Kerala State Insurance Department.
5. Rajasthan Compulsory State Insurance Scheme.

It is suggested that the LIC should introduce 'Direct Business' for individual life policies. This would enable prospective policyholders to buy policies at lower rates of premium and to take greater interest in the basic principles of insurance and assist in rapid expansion of insurance business.

The lower rates of premium say 7½ per cent off the tabular rates will be possible because remuneration and perquisites now

paid to agents and development officers will not require to be spent.

The aim of insurance should be towards agency-free and cheap insurance and for this purpose, agency commission rates should also be periodically revised and reduced for future business. Absence of competition justifies the above steps.

All the State controlled State Insurance Departments underwrite life insurance business without the intervention of agents or canvassers ordinarily.

The Equitable Life Insurance Society of England, established in 1762 has no agency force although it underwrites substantial sums of insurance, and the resultant savings benefit the policyholders.

> The efficiency and the success of an organisation depends entirely on the quality of its personnel, particularly those at the managerial levels.

Hence the need for proper selection, training, and channels of promotion. Whilst departmental training and examinations help, it prevents outsiders and aspirants to get the requisite training, compete and secure employment.

With the rapid growth of life-fund, the problems of investments in various fields and the need to keep continuous check thereon is becoming a complex operation of great magnitude.

The investments are widely spread in different units over the States in India. The investments are in public sector, cooperative sector and private sector. Information regarding broad distributions as on March 31, 1977 are given below as illustration:

	Within India	*Out of India*
	(In million of rupees)	
1. Stock-Exchange Securities	21,239	250
2. Loans to different states, various boards and corporations, municipalities, zila parishads and cooperatives, industrial estates and com-	13,400	17

	Within India	*Out of India*
	(In million of rupees)	
panies. Some of these are guaranteed by the Central and State Governments. In respect of others LIC prescribes its own conditions.		
3. Houses, Properties and Land owned by LIC	578	24

The investments cover various industries such as: (*i*) Aluminium; (*ii*) Cement; (*iii*) Coal; (*iv*) Cotton Textiles; (*v*) Dyes, Chemicals and Pharmaceuticals; (*vi*) Electricity and Electrical goods, (*vii*) Engineering, (*viii*) Food, Drink and Tobacco; (*ix*) Investment Trust; (*x*) Iron and Steel; (*xi*) Jute; (*xii*) Matches; (*xiii*) Mining; (*xiv*) Mineral Oil; (*xv*) Paper and Boards; (*xvi*) Plantations; (*xvii*) Railways; (*xviii*) Rubber Products; (*xix*) Shipping and Transport; (*xx*) Sugar and Breweries; (*xxi*) Textiles (Other than Cotton); (*xxii*) Vegetable Oils, and (*xxiii*) Miscellaneous.

In addition to the above it may be noted that the LIC has investments in all countries abroad totalling over Rs. 304 million.

To keep track of all the investments, realisation of interests and dividends, other follow-up actions and to keep watch on their values due to fiscal changes, natural calamities, world events, etc., must require considerable expertise.

It transpires from the accounts that the amount of outstanding loans to companies and cooperative societies exceeds Rs. 1150 million.[4]

The varieties of the operations would require a very specialised knowledge which the departmental staff of the LIC may have acquired through experience.

The investments must also be requiring considerable attention of the senior administrative staff.

The magnitude of the operations is increasing rapidly with the increase in the Life Fund. It would be obvious that the process of investments and its supervision must be having an adverse effect on the economy and operations

[4]LIC, *Twentieht Report and Accounts*, March 31, 1977, p. 36.

of LIC in conducting life insurance business. Further, it would be distracting the administrative and managerial staff from their basic responsibility of providing insurance protection to all eligible persons at a rapid pace. We have referred to certain aspects of the problems of investment later.

Life insurance business is a means to mobilise the savings of the people. In addition, it provides the 'insurance cover' which distinguishes it from the other systems.

The savings that accumulate in the Life Fund have increased rapidly from over 4,100 million of rupees to Rs. 39520 million as on March 31, 1977 to over Rs. 58180 million of rupees as on March 31, 1980. In other words, since its inception LIC has been able to conserve savings of over Rs. 54080 millions of rupees. The object of nationalisation was that this saving should be utilised for developments benefiting the community as a whole.

The investments of this sum are governed by the modified section 27A which has been made applicable to LIC.

This has also been referred to in the chapter on Insurance Law. LIC has inadvertently or unknowingly purchased spurious shares from Shri Haridas Mundra in 1957. The Government of India set-up a one-man Tribunal under an Act of Parliament (Act 78 of 1972). It was presided over by a High Court Judge to resolve the conflicting claims. The Tribunal has since completed its work. Many claims are, however, still dragging on under appeal. Shri M.C. Chagla, an eminent jurist and later Minister for Foreign Affairs conducted an enquiry in what is known as 'Mundra Case'. For his recommendations dated February, 10, 1958 see Appendix 24.

The Finance Minister Shri C.D. Deshmukh made a statement in parliament, whilst placing a notification under Subsection (2) of Section 43 of the LIC Act 1956 on the Table of the House, which mainly deals with the problems of investment by LIC under Section 27A of the Insurance Act, 1938 and certain other changes. This is shown in Appendix 25.

The investments forming part of assets have been shown in Appendices 26 and 27.

The current premium income of LIC, excluding interest income from loans, properties and investments (net) and miscellaneous income, is more than adequate to cover the

present expenses of management of life insurance, investment and allied activities and all outgoes due to claims by death or survival, surrenders and/or provisions made to cover depreciation, bad debts, etc.

The LIC has also to find remunerative opening for the rapid additions at the average annual rate of Rs. 6,000 million rupees to the Life Fund. It is common knowledge that LIC is now the single largest investor in the stock exchange.

With the rapid increase in the rate of interest earned by the LIC and obtaining greater margin than the rates assumed in valuations, together with the very satisfactory mortality experiences referred to earlier, an increasing large surplus should occur at future valuations, and should be available for distribution amongst the policyholders.

The results can, however, be vitiated if the expenses and outgoings increase more rapidly than what has been provided for in premium calculations and in subsequent provisions made at valuations or provision has to be made to cover depreciation or write off bad, doubtful and sticky investments and unforeseen expenses not provided for.

The large surplus that would appear to be arising as a result of lower mortality and higher interest earned on the present existing business should, in equity, be shared with the existing policyholders more liberally than in the past, and should not be utilised to pay for rising excessive expenditure.

It is suggested that a 'Special Reserve Fund' out of the savings, due to lower mortality experienced and the surplus interest over the prescribed rates in valuations earned should be set up.

The Fund should be utilised not only to maintain the ordinary bonus rates in future, but also to meet the claims for 'Maturity Bonus', and to get over any adverse effects of untoward increase in mortality (*i.e.* war, earthquakes, floods, epidemic, large scale accidents, etc.). It may also be used to encourage annuity business by additional payments to equalize fall in value of money or rise in price index. Later on 'Additional Bonus' may be extended out of this 'Special Reserve Fund' in respect of claims due to death under policies which are in force for at least fifteen years or occur within five years of their maturity dates in case of endowment

policies of 20 years or of higher durations.

This may help in continuance of the policies and reduce alarmingly rapid growth of the number and the sum assured under 'Forfeiture' and 'Lapsed' policies (Appendices 20 and 21).

It would also assist in increasing the revival of forfeited or lapsed policies.

The acceptance of the above suggestion will also have a restraining and favourable effect on the expenses of management and in serving the interest of the policyholders[5].

In this connection, it would appear that the considerable expenses relating to investment of the funds have not been separated from the expenses relating to the conduct of insurance business.

The principle of 'uberrima fides', *i.e.*, utmost good faith demands that the expenses related to the investments must be accounted for in the investment account so that a true rate of gross and net interest earned is shown.

We have already suggested that the investment balance sheet be drawn up separately from the insurance balance sheet which would give a more detailed picture of the operations conducted by the LIC.

A change in the system of investment of the annual accretions to the Life Fund is suggested. It will facilitate allotment of portions of the Fund to specialised agencies, thus controlling the directions of investments, and to accelerate integrated developments in various sectors of urban and Rural areas according to state policies. This will also provide for overall supervision by the government, secure a better return to the Life Fund, and will be economical in operation.

The annual accretions to the Life Fund should be credited to a specified account of the Central Government. The Central Government should provide this credit, according to priorities determined from time to time by the Government, for investments in specified fields through specialised agencies like:

1. Industrial Credit and Finance Corporation.

[5]The payment of additional bonus has been partially implemented by the LIC through provisions made in their 12th Valuation Report for the period ended March 31, 1979.

2. Unit Trusts.
3. Land Development Banks.
4. House-Building and Mortgage Loan Corporations
5. National Redeemable first preference share Fund for larger units set up in public, joint and private sector.
6. Call-money through nationalised banks.
7. National Equity Fund to provide redeemable risk capital to smaller units.
8. Self-liquidating Revolving Rural Development Fund
9. Other specialised agencies.
10. Investments of foreign exchange earned in foreign countries.

Such bodies may supplement their resources by tapping private resources also. In effect, the savings of insurance business will then act as an important catalytic agent to further attract savings for socially purposive investment projects and will be amenable to better government control, in the interest of policyholders.

This would absolve LIC from the onerous responsibility of having to invest in various fields through a multitude of operations and will eliminate the expenses of staff, commissions and other incidental expenses relating thereto.

The State Governments are providing tax free returns on the Life Funds of State Insurance Departments which are deposited with them.

It will also be desirable for the LIC if the management of its existing investment portfolios are also transferred along with the dealing staffs to the appropriate above-mentioned agencies. The mortgage and housing development business and its functions can be made into a viable separate unit. Investments pertaining to dividends and interest can be made into one or more viable units. These can be taken care of under the "Other Specialized Agencies" mentioned earlier.

The adoption of the above suggestions will result in a substantial reduction in the expenses incurred in running the insurance business, and its control and management will be made easier and more realistic. The expenses can then be studied with greater precision and compared with 'Loading'

made in the premiums. Adjustments of premiums can then be made once every decade or so.

Audit of Life Insurance Corporation Accounts

Section 25 of the Life Insurance Corporation Act 1956 provides for the audit of the accounts of the Corporation by qualified auditors of companies, to be appointed by the Corporation with the previous approval of the Central Government. The auditors are to submit their report to the Corporation and also forward a copy of the report to the Central Government.

The decision to provide for audit by company auditors was made as it was felt that the operations of LIC are technical and the officers of the Comptroller and Auditor General of India may not have adequate knowledge of the actuarial science, etc., and the officers then available may have been inadequate in number.

The audit by private auditing firms appointed by the Corporation (with the prior approval of the Central Government) are governed by two main principles: (*i*) that 'Decisions' have been made by the Corporation, and (*ii*) the 'Expenditures' are covered by appropriate vouchers. Ordinarily, the interests of the policyholders are adequately served by such audits.

One of the erstwhile insurers whose business was taken over provided for auditors who were to audit and bring out any factors adverse to the interests of the policyholders. This was in addition to the appointment of other auditors to audit the business of the company on behalf of shareholders.[6]

If any such provision was provided at the time of nationalisation, it is likely that the commission, bonus and other remunerations paid to the development officers and agents on doubtful businesses and such other practices may have been pointed out. Similarly the cost of remuneration and bonus, etc., to development officers incurred by LIC which shows an increasing tendency and already forms a substantial percentage of the cost of procuration of new business would have been brought out before it became a cause for anxiety.

[6]Refer to page 4, Chapter III. *Jubilee Pamphlet (1874-1924)* of the

It is not out of place to mention that prior to nationalisation the cost of special agents, etc., was not more than 15 per cent as prescribed under the Insurance Act 1938, as amended. This came in for severe criticism and such category of intermediaries was eliminated.

It is also likely that the changes in policy conditions which have been unilaterally made more unfavourable rather than liberal would have come to light earlier.

With the increase in the volume of business, new investments reaching the sum of Rs. 6,000 million annually in different fields and over Rs. 58,000 million of existing investments in a variety of different ventures call for a further look into the problems of audit for the satisfaction of government/parliament, insuring public and the interest of insurance business itself.

The interests of the policyholders and the Central Government have become inter-linked and can be adversely affected by injudicious decisions which may remain uncovered for a long time in the existing forms of compilation and keeping of accounts.

The interests of the policyholders, the tax-payers and the fair name of the Central Government require that 'propriety of decisions' of investment activities and the form in which the accounts are kept and compiled are prescribed by an authority other than LIC or the auditors appointed by LIC.

Attention of the Central Government and the parliament could then be drawn at the earliest opportunity to shortcomings in decisions arrived through prescribed procedures.

The shortcomings, even if subsequently made good from the general revenues, could still be embarrassing to the government and be detrimental to the interests of the policyholders.

Prescription of propriety audit by Comptroller and Auditor-General of India will provide adequate control over State Corporations also and bring to light any extraordinary use of the life fund.

Setting up of State Insurance Corporations, Regional and later Zonal Bima Corporation/Units have been suggested

for efficient functioning and prompt rendering of service to the insuring clientele by being near to them and bring under the insurance umbrella a larger number of people than it has been possible for the LIC to do. It is foreseen that some of the State Insurance Corporations, Regional or Zonal Bima Units may reach the optimum size suggested (say around 50,00,000 lives covered or policyholders) in less than a decade.

In view of the above, the time is opportune to examine the issues and make appropriate provisions during the review of Insurance Act 1938 and the Life Insurance Corporation's Act of 1956.

Life insurance is business in money. The premiums that are received and the sum assured are promised to be paid through money in currency.

Over a period of time, particularly in the past few decades, money has depreciated in an appreciable manner as a store of value. Hence the grumbling that good money is paid as premiums and in course of time (not applicable to early death claims) the proceeds of a policy are received in depreciated currency.

The fall in value of money during the period measures the loss in purchasing power.

To counteract the deleterious effects on savings varying high rates of interest are allowed on deposits in banks and other saving medias. In the case of insurance policies it is assumed that bonus partially compensates the fall in value of money.

The bulk of the premiums under nationalised insurance could be deemed to be a loan to the government, through the Insurance Corporation, for future provision for self (like other forms of savings) and insurance protection (decreasing term insurance) for dependents.

The Central and State Governments mobilise savings through various channels. The object in each case being that the holders of money should voluntarily agree not to use the money (purchasing power) for securing goods in the present and transfer such money to the safe custody of the different government agencies for a specified period on prescribed terms and conditions. At the end of the period of custody

the refunded money may be used for necessary purchase in the future when more goods will be available as a result of developmental efforts, or the same may be redeposited for further safe custody at the terms and conditions then prevailing.

Following is an extract from the broadcast[7] made by Shri C.D. Deshmukh, the Finance Minister, on January 19, 1956 on the occasion of the promulgation of an ordinance which was the first preparatory step towards nationalization of life insurance:

> It is a truism which nevertheless cannot too often be repeated that *nations' savings are the prime mover of its economic development*. With a second plan in the offing involving the accelerated rate of investment and development, widening and deepening of all possible channels of public savings has become more than ever necessary.

He further said

> *Of this process the nationalisation of life insurance is a vital part.*

The public saves to provide for any unforeseen future contingency and for future sustenance when the income dwindles or ceases. It takes various forms such as savings of money through deposits in: (*a*) post offices, provident funds, banks, fixed deposits in companies, etc., in addition to investment of savings in: (*b*) material possessions such as land, houses, shares, jewellery and other household goods, etc.

The savings through life insurance come under the first category.

It will bear reiteration that the primary characteristic of savings under category (a) above is that spending of money, which is a purchasing power in possession of individuals, etc., is not done in the present, but deferred to the future. The money transferred to the custody of the government is used for productive purposes to benefit the society as a whole.

Thus an individual denies himself the immediate enjoyment

[7] *See* Appendix 1.

of the fruits of his labour, at the instance of the government and postpones its enjoyment to the future, when he needs it to maintain himself.

Inflation reduces the total purchasing power of the quantum of savings. It, therefore, adversely affects persons with limited income, who make greater sacrifice to accumulate their limited savings, rather than the persons with progressively higher incomes and possessors of larger savings. Inflation enables entrepreneurs and business classes to earn more of this depreciated money, which more than counter-balances the depreciation to their savings.

Imbalances continue to be maintained and the disparities widen between the entrepreneurs and better-off classes on the one hand and the not so well off urban and rural people on the other.

The rough estimated savings during 1976-77 are as follows:

> Time deposits in the scheduled banks in India over Rs. 111,150 millions; The Post Office deposits Rs. 45,000 millions; deposits in the Central provident fund account of the Central Government employees about Rs. 17,000 millions; deposits in public provident fund balance meant for self-employed persons over Rs. 440 millions.

There are many other general provident funds in different organisations and statutory bodies under the Central and State Governments and statutory corporations controlled by the governments.

From a press news item[8] it is observed that the Central Board of Trustees of Employees' Provident Fund have recommended a higher rate of interest at 8.5 per cent per annum to the subscribers for credit to their accounts for 1978-79 against 8 per cent for the provious year (this is being done to mark the Silver Jubilee Year of the Employees' Provident Fund Organization).

Similarly, the industrial and commercial institutions in the private sector have statutory provident funds and the de-

[8] *The Tribune*, February 17, 1978.

posits in them are quite substantial.

In addition, in the recent past the deposits under the scheme of company deposits as per Reserve Bank directives have also become substantial and are estimated to be more than Rs. 9,860 millions as on March 31, 1980.[9]

The State Insurance Departments also have many millions of rupees in their life fund which is on loan to the respective state governments and earn interest.

The collective savings of individuals are substantial. In earlier years the funds were primarily utilised in urban areas which increased the disparities between urban and rural areas. The funds have also been used in socially purposive investments for the benefits of the entire community. The benefits, however, largely accrued to urban areas, industries and better-off classes in the rural areas.

Stress on rapid rural development is now being emphasised to reduce and correct the imbalances that have cropped up in the existing economic developments and avenues of employment opportunities.[10]

The stability in value of money and currency is to a large extent possible if the money is backed by massive investments to create:

(*a*) real estates;
(*b*) agricultural products that sustain life;
(*c*) commercial crops;
(*d*) natural resources; and
(*e*) means to develop and exploit all the above.

These will result in expansion of trade and commerce, communications, foreign trade and develop other ancillary industries, etc.

We suggest that a *Self-liquidating Revolving Rural Development Fund*, say, with a target of Rs. 10,000 million be set up by the Central Government. This fund is to be primarily used for land developments on a large scale

[9]*Times of India*, April 8, 1981.

[10]Address by Smt. Indira Gandhi, President, Indian National Congress and Prime Minister of India on February 16, 1981 at the Kisan Rally in New Delhi.

at selected places, where infrastructures and provisions for civic life can be economically provided for people for setting up medium scale ancillary industries supplying raw or semi-finished products to bigger units already set up in urban areas. These will also be the nodal or focal points from where further penetration in rural areas can be made, to set up cottage industries and to provide facilities to develop agriculture and agriculture based industries which can be profitably and economically set up and provide employment to the regional and local people, and rapidly create new assets, including new townships and planned new villages and renovation of existing villages.

If the utilisation of the *Self-liquidating Revolving Rural Development Fund* shows promising results the size of the Fund can be further increased by investment of a larger proportion of the accretions in the life funds and contributions from other means of saving.

Eighty per cent of the collections made by a State out of a quota allotted for the central Self-liquidating Revolving Rural Development Fund should be earmarked to be spent for the rural areas within the State by the State Government.

It would be desirable that preferential fiscal concessions be given to accelerate rural development to rectify early the existing imbalances between urban and rural areas. It is suggested that one per cent higher interest rate than what is prescribed for the long term bank deposits be allowed. The upper limit of the investment in the Self-liquidating Revolving Rural Development Funds be restricted to Rs. 50,000 by any one individual and the interest be tax-free say for the next ten years[11]. This is likely to result immediately in a regular, continuous and substantial flow of funds.

The government is already providing substantial additional funds from other sources for development of rural roads, rural industries, its infrastructures, sanitation, health, agricultural and educational activities. The offices administering and executing the above activities should be moved to

[11]The government provided for tax-free dividends up to Rs. 2,000 per annum from the Unit Trust of India, in *addition* to Rs. 3,000 on bank interest.

newly developed townships from overpopulated congested townships and cities. This move will help better integrated development of the country as a whole.

The land development operations and building of new townships will provide focal points and planned areas for setting up of medium scale industries and their dispersal from the already congested industrial areas of cities and towns.

Additional areas could then be developed in a regulated manner, according to the directions of the State Governments, through integrated plans.

Interest rates on bank deposits, be they in savings bank or any fixed deposits, are changed to encourage deposits and control monetary expansion, and improved procedures are prescribed to reduce the number and record of operations.

These steps restrain purchasing power in order to control inflationary effects on prices of goods. The purchasing power or the money becomes available subsequently.

Premiums under the present prevalent system can be viewed as consisting of two parts:

(*a*) a loan to the government to provide for old age after the working life is over (these loans to the government or savings are on par with other forms of recurring savings, particularly in government institutions like banks, provident funds, post office savings, etc.); and

(*b*) the contribution towards insurance protection, *i.e*, decreasing term insurance for the working periods of life.

The prospective insurers and policyholders are worried by two uncertain factors, namely:

1. What money they would get back, and
2. What that money would buy.

The first worry is due to inefficient service, increasing avoidable expenses, inefficient operational methods, lack of will to simplify policy conditions and to cut down procuration and maintenance cost of administration of insurance business.

This is because vested interests resist changes.

The second worry is affected by inflation or erosion in the value of money, when the sum assured under the policy is received.

The Insurance contract is expressed in terms of 'money' or currency. The premiums are periodically payable in 'currency' or money and the sum assured by the Corporation is also payable in denominations of money, *i.e.*, currency at the time of claim or maturity of the policy.

Hence the promises of corporations with the backing of the government are substitutes for payments of money in lieu of the fixed sums savings portion of premium that the insured public periodically deposit with the insurance corporations.

THE LIFE FUNDS SHOULD BE UTILISED FOR CREATION OF NEW ASSETS AS ITS LEGITIMATE FUNCTION.

The main purpose of all the savings is to have one's own house and a modicum of income adequate to provide the daily needs and to maintain the standard of respectability of living one becomes used to by the time of retirement from active productive life.

Life insurance covers an estate yet to be created—and assures it—in case it cannot be achieved due to loss of life of him who intended to create it.

Purchase of created assets on a large scale is, however, often indulged in to further the interests of individuals or groups. This amounts to a deviation from the objectives of nationalisation. LIC is already the largest single investor in the stock exchanges.

The two uncertainties pointed out earlier deter rapid expansion of insurance business and, thus, many forgo its beneficial protection. It also results in the unhealthy practice of *Insurance being sold* rather than *Insurance being purchased.* This also increases *expenses* which eat away portions of the savings of the policyholders.

There are many persons (men and women) who are not insured under the present conditions of LIC—such as those suffering from disease, severe physical impairments and/or over age, say more than 60 years of age. The need for a regular income for them is obvious. The government wants to

encourage savings, and also desires to help handicapped persons and old people.

The government already permits tax-free income of Rs. 3,000 per amnum of bank interest and this figure is equivalent to a fixed deposit of Rs. 30,000 for a minimum period of 5 years at 10 per cent interest.

Persons retiring from government service including defence-forces, corporations and private institutions and others retiring from commercial and business activities are faced with the problems of investment of their gratuities, etc.—their life's savings.

It is therefore suggested that the bank interest for fixed deposits of 5 years and more upto sums of Rs. 1,25,000 be made income tax free subject to stringent conditions of no loans or other pledging of this sum for any business purpose and also subject to income-tax returns being filed.

This would prevent the funds being frittered away or lost through misadventures in investments encouraged by unscrupulous people. Substantial sums of money will be withdrawn from circulation. This would help government to control the expansion of money in circulation and regulate its use for socially purposive objectives, thus executing developments in an orderly manner.

The government assists in creation of capital by fiscal concessions to the entrepreneur class. Generally speaking it is not feasible for all to invest their money directly to avail of the concessions. This is true particularly of those who are retiring from active service or business life, say after attaining the age of 60, and women inheriting property and money, which they desire to preserve.

So far concessions have been given to the income-tax payees in the shape of rebates to encourage savings *inter alia* including life insurance. It has, however, been stated that about 7 lakh people out of about 40 lakh of income-tax payees have taken advantage of this concession. Whatever be the reason for introducing concession in the past it would appear that this rebate of income-tax concession benefits only a class of people who are certainly better-off than the class which is not covered by income-tax Act and for whom insurance pro-

To provide for a more integrated society the following suggestions are made:

1. The income tax rebate on premiums paid on life policies may be withdrawn, in progressive stages.
2. As long as it is retained the income tax account number should be either endorsed on the policy or kept with the records in the life office and separate certificates be issued in respect of the premiums paid for purposes of claiming refund of income tax rebate. Provision should, therefore, be made in the proposal form to elicit information whether refund of income-tax is intended to be claimed.
3. The income-tax rebate concession presumably have been granted on the reasonable assumption that the policy will be maintained. In case of forfeiture, lapsing or surrender of policies the government may desire that the LIC should intimate the income tax department so that recoveries of rebates allowed on the policy since its inception are made.

It may be mentioned that in America and Canada income tax rebate is not allowed on premiums.

The concession of income-tax rebates for the income-tax payees may, however, be kept in tact, if they subscribe to the Self-liquidating Revolving Rural Development Fund annually. This concession should only be given to the income-tax payees if they provide their permanent income-tax account number.

To mobilize savings for development purposes annuities purchased say upto Rs. 12,000 a year till the age of 55 or 60 and for larger sums say Rs. 30,000 a year beyond the age of 55 or 60 should be allowed to have their instalments received free of income-tax.

Similarly, annuities purchased for the benefit of other dependents should also be allowed to be free of tax upto Rs. 6,000 per annum till the age of 55 or 60 and thereafter say for Rs. 30,000 per annum.

These instalments should be free of tax in the hands of the annuitants.

The time, is, therefore, opportune to modify the strategy to achieve rapid spread of life insurance to all eligible persons and to safeguard the savings through a suitable framework and regulations prescribed by statutes backed by economical and efficient operations. We have suggested amendments to the Insurance Act of 1938, and the LIC Act of 1956.

The shortcomings in life insurance business can best be eliminated through, *inter alia*, statutory control on expenses by:

(*a*) eliminating development officers for underwriting or getting any bonus on assurances on individual lives.
(*b*) controlling agency commissions, and
(*c*) deferring their (commission and bonus) payments till one full annual premium is received.

Any extra over and above the statutory first year and renewal expenses is to be met first from the 5 per cent surplus at valuation surpluses earmarked for the State. This would raise debates and discussions. If the expenses are higher than 5 per cent of the valuation surplus it has to be given by the governments as a grant or subsidy to the Insurance Corporation. This should be in lieu of the income-tax rebates given to higher income group policyholders which should be withdrawn in stages.

It is also necessary that steps should be taken to progressively simplify policy conditions. Steps are also necessary to streamline and make more efficient record keepings, office administration and prompt settlement of claims.

The proposed state corporations should have identical premiums *vis-a-vis* each other in respect of identical policies.

Each corporation will try to keep the expenses well within the statutory limit prescribed and practise 'profit sharing' through payment of bonuses—reversionary bonus, and special maturity bonus to the policyholders, encourage higher studies by patronizing specialised insurance institutions as a source of recruitment, and training for their staff.

Periodically new premium rates calculated to give full weightage to improvements in mortality rates and better interest returns available on investments will be made. The

existing old policies on old rates should be treated as closed series.

State corporations can also encourage special group term insurance policies adjusted to specific needs of a viable group.

Progress in each unit of insurance organisation is to be judged by achievements in proportion to the estimated final target, *i.e.*, to cover 100 per cent of all adults during their working period of life.

Thumb-nail small photos taken on the spot should be attached with each application. Micro filming of records should be made for safety, permanency, and saving on office space and speedy settlement of claims.

It was reported that 60 per cent of deposits in public sector banks secured in rural areas were to be invested in rural areas by March 31, 1979. We suggest that 30 per cent of all deposits (or as may be agreed) in respect of deposits in public sector banks in urban areas also should be earmarked for development in rural areas. The money could then be a source for investment in the Self-liquidating Revolving Rural Development Fund.[12] If it is considered opportune to divert deposits in banks to rural or urban areas for integrated growth it would appear that the time is also opportune to re-examine the investment directives of the government regarding 'Insurance Funds' which was issued more than 20 years ago.

Some states have insurance departments which can become the nucleus of the state insurance corporations.* They can do so if the states declare that they have insurable interest in the lives of their citizens and thus it would be legal for them to extend insurance benefit to the citizens through the state corporations.

We have already suggested that annuity business should also receive encouragement. The annuity business can receive a great fillip if the suggestion made for payment of

[12]*Times of India*, April 9, 1981. The Estimates Committee of Parliament, Seventh Lok Sabha (1980-81) in their seventh report, deplored the continued reverse transmission of funds from rural branches to the urban and metropolitan centres.

*Refer to Chapter 2, p. 22, ante.

annuity instalment is linked with cost of living index so that the annuitant is able to live without being affected by inflation at the end of his working period.

In fact this should become a Fundamental Right of all working law abiding people who have given the best of their working life in the service of society through its many organisations and their own creative activities.

The trend in Insurance is now shifting from individual voluntary life insurance to group insurance.

It may also be noted that large employers can operate this scheme departmentally with the technical collaboration of LIC and the lives covered under such schemes can be considerable and the cost of operation of the scheme can be much lower, thus increasing the benefits to the persons covered under such schemes. The risks covered and benefits extended can all be varied to suit the needs of individuals or groups to be covered.

The Government of India has also introduced the Central Government employees insurance scheme which applies to all Central Government servants on regular establishment (including work-charge staff) other than the railway servants and persons paid from defence service estimates.*

The Central Government scheme, however, does not apply to contract employees, persons on deputation from state governments, Public sector undertakings or other autonomous organisations, locally recruited staff in Indian Missions abroad, casual labourers and part time employees.

It is understood that the ministries of the Railways and Defence have separate orders issued to cover persons under their charge.

The defence services are operating the group insurance schemes separately in the three branches of Army, Navy and Air force.

The contributions made under the scheme qualify for income tax rebates also at present.

*Government of India, Ministry of Finance (Department of Expenditure) O.M. No. F. 9(10)-E.V. (B)/73, New Delhi, January 8, 1975.

It is gratifying to note that the success of the scheme has encouraged the Army to enhance the Insurance cover to Rs. 60,000 for the Officers and Rs. 25,000 for Junior Commissioned Officers and other ranks on the premium rates of Rs. 60 to Rs. 25 per month respectively. This was announced by the Chief of the Army Staff, General T.N. Raina on January 15, 1978 at the annual Army Day Parade. General Raina also added: "If the money was allowed to remain in banks and its interest utilised, it would get, almost all ranks, an income, which, when added to their pension and retirement benefits, would nearly equal the last pay drawn while in service."[13][14]

It is understood that similar enhancement of benefits of insurance cover is under active consideration of the Naval and Air Force authorities respectively.

It will be of immense interest if information as to operation, etc., of such schemes is also published authoritatively at one place. Alternatively the existence of such schemes and the source from where information can be available is published in the official report as prescribed under Section 116 A of the Insurance Act 1938. This will not only arouse interest but also enable other large viable units of employees in public sector, and also in private sector, if Section 44(f) of the LIC Act 1956 is suitably amended, to obtain similar benefits. This will create immense goodwill between the employer and the employees and will be a big step towards the ultimate objective of nationalisation, of providing security through Life Insurance to every working man and his family.

The Insurance journals and special supplements of newspapers and periodicals can render immense service to individuals and institutions in propagating the principles of insurance and the benefits available under different forms of insurance schemes.

It is suggested that the government may create a *special fund* out of its share of the valuation surplus after deductions

[13]*The Tribune*, January 16, 1978.

[14]The benefits under the scheme have been further enhanced to Rs. 1,00,000 for officers and similarly for others with effect from April 1, 1981. This was announced by Gen. O.P. Malhotra, Chief of the Army Staff.

of the following:

(*i*) Compensation paid to erstwhile insurers.

(*ii*) Annual excess wage bill of Rs. 6 million for including the staff of erstwhile insurers into one common pay scale.

(*iii*) Rs. 7 million (this has already been deducted) to keep up the face values of the policies of certain erstwhile insurers being reduced.

(*iv*) Cost of missing securities unless these have been provided through the funds of the concerned erstwhile insurers.

(*v*) Cost of disputed securities and the legal expenses incurred in connection therewith.

(*vi*) The contribution towards deficit of Oriental pension fund amounting to Rs. 2,986,000 shown as expenses of management of Life Insurance business in the twentieth annual report and accounts of LIC.

(*vii*) A return of 10 per cent per annum on the sum of Rs. 50,000,000 advanced to LIC as capital in terms of Section 5 of the LIC Act 1956.

(*viii*) Other outgoes (*i.e.*, amounts that have been debited to the accounts) in the funds of LIC, which are not in the interests of continuing policyholders.

Special Fund is to be used to neutralise the following:

(*a*) The present surcharge in respect of the small policies to pay Rs. 2 per policy below Rs. 1,000 sum assured.

(*b*) The extra charged for monthly payments on individual policies.

(*c*) The extras prescribed for all hazardous occupations covered under policies, unless it is brought out of a levy or contribution from employers of hazardous occupations, or such industries.

(*d*) Extras charged for physical impairments of lives covered.

Part of the Fund may also be used:

(*i*) to grant subsidy to set up institutions to study actuarial science, insurance office management, courses for agents and development officers at welfare management institutions;

(*ii*) to give encouragement by awards, grants, and subsidy to insurance journals, etc., for studies in all aspects of social cohesiveness, creation of full employment to all, assist in creation of social assets and increased savings to achieve the target of universal insurance and social security by 2001 A.D;

(*iii*) to sponsor studies in population of different states and regions in macro and micro levels, to provide continuous statistics for planning. The studies in mortality experiences will assist in drawing up of realistic premium rates for assurance plans on individual lives and groups, and for annuities indigenous mortality tables can be profitably used in valuations to assess liabilities; and

(*iv*) to reimburse any excess expenditure over statutorily prescribed for first year and renewal expenses before grants are made from the general revenues.

A 'nucleus fund' is to be created for introduction of universal 'Term Insurance Cover' by stages to cover all adult persons male and female in rural and urban areas during their working period of life. Contributions from other sources to the 'Nucleus Fund' and experience gained will determine the rate at which the term insurances could be spread to all parts of the country.

One of the most valuable assets of our country is manpower. Our resources of man power are large. However, if they are not utilised properly, they become a liability.

Howsoever competent a person may be who has acquired specialised knowledge it is not ordinarily possible for him to secure profitable employment or participate in a gainful activity singly in the present set up of the social system. This is more true in the case of rural workers whether casual or seasonal. It is, nevertheless, true that without their services

the existing organisational pattern of business and productive activities in rural areas will come to a halt or collapse.

The number of unemployed at present has been estimated at 47 million. It is planned to increase employment opportunities and reduce the unemployed figures to 15.5 millions in 1982-83.[15]

Pending provision of full employment promised during the next ten years, it is suggested that a beginning be made to provide term insurance cover first to rural workers, and later to similar casual and seasonal workers in urban areas. For a beginning this insurance may be restricted to persons in rural areas between the age groups of say twenty and thirty years. The 'Term Insurance Cover' should be on the basis of a low expense ratio statutorily prescribed and may be administered on the principle of *Simple Administration*. Also the *Term Insurance* protection be for a fixed minimum sum assured of say a thousand rupees and higher sums by steps of Rs. 500 upto Rs. 3,000. Premiums for term insurance policies for Rs. 1,500 and above—will require to be paid directly by the persons covered. This will be a prior condition to soliciting and accepting any employment by such persons. It may be prescribed that such Term Insurance policies will not lapse even if premiums are outstanding. The outstanding premiums with interest will be deducted from the sum assured in case of death during the term period which may be prescribed at, say, ten years maximum. A second prescribed condition will be that in case any employment is secured the outstanding premiums will be the first charge on such income and the employer be he casual, seasonal or regular will be liable to pay it directly to the appropriate authorities, obtain a receipt for himself and get the insurance certificate of the worker duly authenticated as to the amount of premium paid and the period for which the worker has been covered under the scheme. Except for casual employment, annual premiums are required to be paid. For casual employment a quarterly premium for a minimum period of three months cover is to be paid.

To provide maximum net term insurance cover of

[15]Sheikh Abdulla's Observation on Draft Plan, *The Tribune*, March 20, 1978.

Rs. 1,000 for a year for a person aged 30 would cost say Rs. 7 per annum per head and for lower age still less.

The outstanding premiums may be agreed to be cleared in respect of specified individuals by organised industries or existing charitable trusts, labour unions, etc., as a measure of social service.

We have suggested earlier that, to start with, the scheme may be restricted to persons between 20 and 30 years of age in rural areas and maximum term insurance could be extended upto 10 years.

This would give a little respite to the dependent family members to adjust themselves to changed circumstances in case of death of the bread winner and to off-set the effects of 'Bura Din' (बुरा दिन) which at present results in very straitened circumstances and sometimes stark poverty.

This will be a gesture extending nominal credit to the poor, qua an individual, most of whom belong to the Scheduled and backward classes)—an act which would recognise the state's obligation to an individual citizen and its responsibility for creating an atmosphere to provide employment opportunities for its citizens as early as possible.

This would provide a step towards equality and encourage the comparatively low income classes to save to buy higher insurance cover. Later they would join other group insurance schemes, and also purchase individual insurance policies which would result in rapid growth of the business.

There is an urgent need to set up a corporate body to conduct study, training and examination of life insurance in all its facets including actuarial science with background of Indian conditions, and conditions prevalent in areas and fields where LIC functions or may enter into. This should ordinarily cover all the neighbouring countries, littoral states of Indian ocean and countries in the Far East and the African continent.

The primary purpose of such an Institute in India with its branches in different parts of the country should be to encourage development and application of logical analysis and technical methods to the solution of problems in the fields of insurance and the related fields of social welfare, such as the study of the various systems of insurance, annui-

ties, old age pension, general accident, disability pension, etc. The Institute should encourage and provide facilities also to students from neighbouring countries to study their social problems. This will help expansion of insurance in various fields and the qualified Associates (बीमा गणितज्ञ) and Follows (बीमा विशारद) already familiar with and aware of socio-economic conditions will find avenues of employment and opportunities to serve not only the cause of insurance in different and varied fields, but also in allied fields of social welfare. The other functions of such an Institute should be to reciprocate publications and to build up technical library; to coordinate activities with the Registrar General and Census Commissioner as well as his counterparts in the States, and coordination in preparation of syllabi, training and conduct of examination in the universities on the subject of actuarial science with the background of multi-disciplinary socio-economic conditions.

The public relations department of LIC has been doing good work in building up the image of LIC to retain the faith of the public in the business of insurance.

Its efforts are, however, limited in impact. To cover all the countrymen with their diverse culture, economic conditions and languages, the efforts of the public relations department are required to be supplemented in a sustained way by numerous journals, in different languages, emphasising the scope and value of insurance to individuals, groups, community and the whole country.

5

Looking Ahead

AN examination of the operational factors of LIC reveals that during the last two decades the LIC has not been able to overcome the shortcomings of some of the erstwhile insurers, which led to the nationalisation of the life insurance business.

Expenses of management in conducting the life insurance business have not come down, instead, they have risen higher than what was statutorily prescribed earlier and complied with by many erstwhile insurers, Indian or foreign. Major items of expenditure like commissions, other related expenses for procuring new business, and renewal expenses do not show the favourable effects of absence of competition and increasing new business.

The new lives covered under new annual business have not kept pace with the annual increased additions to the employed work force even in organised industries in metropolitan and urban areas.

The number of income tax payees brought under the insurance umbrella is understood to be about 700,000, out of more than 4,000,000 assessees. This is in spite of handsome income tax rebates prescribed for premiums paid by such assessees.

The conditions of policies have become progressively stiffer and more disadvantageous to smaller policyholders.

The normal service facilities expected by policyholders from LIC, a service institution, has been deteriorating and causing irritations and has led to an attitude of indifference towards LIC. The business going out of the books each year bears silent testimony.

The vested interests within the insurance organisation and outside, primarily in its investment operations, have

grown affecting the interests and the savings of policy-holders.

The guarantee given by the government that the sum assured and bonuses declared will be honoured is no substitute for inefficient and unprofitable operations. Consequently, the risk of liability to the general revenues remains.

In spite of lower mortality experiences and higher returns on investments, the premium rates have not been lowered. This, it would appear, is due to expenses being higher than what was prescribed in calculating the premiums and even the provisions made in the first and subsequent valuations.[1]

As early as in 1961 the Estimates Committee recommended that at least one step in the tier of zonal office, divisional office, branch office, sub-office and development centre, etc., be eliminated.

The following extracts speak for themselves:

In the 80th report of the Estimates, Committee (2nd Lok Sabha) on the forms and organisation of public undertakings, it has been stated:

> The Committee . . . agree with the view that the pattern should be to utilise the existing organisation to take up new activities in the line instead of creation of new bodies for the purpose. . . but this does not mean that where a line of activity has the character of being or becoming huge monopolistic and is not of strategic significance, more and than one unit should not be set up for the purpose.[2]

[1]" . . . .the premium rates under various plans of assurances have been revised with effect from April 1, 1980.

"From April 1, 1980 the Corporation has withdrawn some plans, *viz.*, Grihalakshmi, Anticipated Endowment Assurance, Cash and Cover, Centenary and Convertible Whole Life—With Profits.

"The Corporation has modified the benefits/conditions for insurance under Convertible Whole Life—Without Profits, and Multipurpose policies.

"The Corporation has also introduced a new plan, *viz.*, Anticipated Whole Life Policy."

—Extract from the *23rd Report and Accounts*, 1980, para 14.

[2]*80th Report of the Estimates Committee* (2nd Lok Sabha), Chairman, Shri H.C. Dasappa, M.P., p. 3.

In the report on parliamentary supervision over state undertakings, the sub-committee of the Congress Party in Parliament (Krishna Menon Committee)[3] also stated:

> The LIC would, in our view, function more gainfully and effectively if it were not all one unit, but consisted of several which would develop their own character, create healthy competition in performance and results. Such a step would also help to effect economy, give opportunity to more talent to be utilised in positions of higher responsibility, etc.

Speaking in the Lok Sabha on February 20, 1958, the Prime Minister said:

> Some members have suggested that it might have been desirable or it might be desirable in the future for this huge organisation to be split up into three or four. It is a matter which may be considered. If that is more advantageous it should be done. We should not hesitate to do it.*

The following extract from the 134th report of the Estimates Committee (2nd Lok Sabha) on the Ministry of Finance (Department of Economic Affairs—Life Insurance Corporation of India, Bombay) is also pertinent:

> The Chairman of the Life Insurance Corporation informed the Committee that if the new business of the Corporation in a year exceeded Rs. 1,000 crores, it might become necessary to split it into one or more separate bodies.

Since 1971, the LIC has issued policies on individual lives excluding group insurance business, exceeding Rs. 1,000 crores and have been rapidly exceeding this figure every year.

[3]Parliamentary Supervision over state undertakings, Chairman, Shri Krishna Menon, M.P., set up by Prime Minister on April 10, 1958, para 82, p. 29.

*Column 1803, Lok Sabha Debates, Pt. 2, Vol.(February 10 to February 21, 1958.)

During the last five years ending March 1981, the sum assured under new business (individual insurance) has in every year exceeded Rs. 2,000 crores.

One of the things that is apparent is that with the increase in the volume of business, decentralisation of operations has become a necessity.

RECOMMENDATION OF THE ADMINISTRATIVE REFORMS COMMISSION

The Commission set up by the Government of India made certain recommendations in respect of the LIC in their report of December 1968. The government took decisions on the recommendations (other than those bearing on investment policy and field force).

The LIC set up a committee to go in depth into the question of delegation of powers and decentralisation of functions to divisional and branch offices. It submitted its report in November, 1971 making detailed recommendations on reorganisation at different levels.

With the decentralisation of functions, as recommended by the committee, the branches were expected to be able to render all essential policyholders servicing functions while the divisional offices would function like the head offices of the erstwhile insurers and perform all the functions of these head offices except policy-making, investments and a few specified functions which would be the responsibility of the central office.

The zonal offices were to be abolished within a period not exceeding three years.

The committee of LIC, however, pointed out that the actual programme of decentralisation would have to be drawn separately for the offices under each division, in the light of the availability of trained staff, adequate and suitable office space and sufficient ancillary equipments, as the conditions in this respect varied in different areas.

The LIC has presumably implemented the recommendations agreed to by the government in relation to decentralisation of servicing functions to the different branches.

It is, however, observed from the three annual reports

of LIC for 1975, 1976 and 1977 that no zonal office has been abolished.

To spread the benefits of insurance to all eligible persons, it will be obvious from the progress statements of LIC and the operational methods of LIC, already one of the largest, single insurance corporations in the world, that alternative set-ups and methods of working have to be seriously considered.

To achieve the objectives of nationalisation and better service to policyholders a number of independent regional organisations are required to be set up.*

Taking a long term view, State insurance corporations would appear to be a natural choice. Further zonal bima corporations will be necessary to provide universal insurance coverage to mobilise increasing savings and to provide prompt and efficient service to all policyholders, big or small, in rural or urban areas.

There should be change from a monolithic to a decentralised developmental approach towards insurance. To achieve this a number of corporations should be set up early, as was envisaged even during the discussions at the time of nationalisation of life insurance business. The suggested state insurance corporations will be enthused to mobilise resources through the cooperative efforts of insurance, benefiting the individual, the society and the state itself.

INDEPENDENT INSURANCE DEPARTMENTS

We will now refer to the different insurance departments of the states which have been permitted to continue to underwrite life insurance business in respect of the employees of the respective state and Postal Life Insurance Fund. These were not affected by nationalisation of life insurance business of Indian and foreign insurers in India.

It has been provided that the LIC Act 1956 is not to apply in certain cases under Section 44 quoted below:

"44. Nothing contained in this Act shall apply in relation

*The Fertilizer Corporation of India set up in 1961 has been divided into five independent units with different names and competing with each other.

to:

(*a*) any insurer whose business is being voluntarily wound up or is being wound up under the orders of the court;

(*b*) any insurer to whom the Insurance Act does not apply by reasons of the provision contained in Section 2E thereof;

(*c*) any composite insurer in respect of the management of whose affairs an Administrator has been appointed under Section 52A of the Insurance Act;

(*d*) the scheme run by the Central Government known as the Post-office Life Insurance Fund;

(*e*) any approved superannuation fund as defined in clause (a) of Section 58N of the Indian Income Tax Act, 1922, which is in existence on the appointed day;

(*f*) any scheme in existence on the appointed day or any scheme framed after the appointed day with the approval of the Central Government whereby, in consideration of certain compulsory deductions made by government from the salaries of its employees as part of the conditions of service, the payment of money is assured by government on the death of the employee concerned or on the happening of any contingency dependent on his life.

Appendix 31 gives the list of insurers covered under clauses (a), (b), (c), (d), (e), and (f) of the above Section 44.

In addition, there appears to be several superannuation funds connected with Indian Government services and other funds which were exempted from the operation of the Insurance Act 1912 and from the operations of the Insurance Act 1938.

The funds enumerated below were primarily connected with the Indian Government service: (*a*) Indian Civil Service Annuity Fund; (*b*) Indian Civil Service Family Pension Fund; (*c*) Bengal Uncovenanted Service Family Pension Fund; (*d*)

(*e*) Bengal and Madras Service Pension Fund; (*f*) Indian Military Service Family Pension Fund; (*g*) Queen's Military Widows' Fund; (*h*) Madras Military Assistant Sergeants' Fund; (*i*) Bengal Civil Fund; (*j*) Madras Civil Fund.

There has been no reference in any of the LIC reports about the above funds and so, it is presumed, that they have continued to operate since the LIC Act came into force or have been wound up since then. No records are published in respect of the above in the Government of India Insurance Year Books. And so, reference and examination of their operations have not been possible.

It is, however, desirable to conduct studies into the records of working of such funds also, so that the benefit of their experience becomes available for adoption in any current or future schemes.

Central and State Government can encourage the proposed insurance institutes and insurance journals and universities to study the working of such institutions and subsidise them, if necessary, from the 5 per cent valuation surplus.

The scheme run by the Central Government known as Post Office Life Insurance Fund has been exempted under section 44(d) of the LIC Act 1956.

The state insurance departments run by the state governments were permitted to continue their operations and their operations were not merged in the LIC under section 44(f) above. The terms and conditions of these are being referred to now. Information has been obtained, as far as possible, from the departments concerned directly.

Andhra Pradesh Government Life Insurance Department, Hyderabad

The genesis of the scheme had its origin in 1907 when it was started under the name of the Family Pension Fund for the benefit of family members surviving a government servant before the retiring age. In 1913 it was converted into the full fledged life insurance fund under the name and style of Hyderabad State Life Insurance Fund.

The scope of this department extends to the entire State of Andhra Pradesh from January 1, 1958 and it issues only

its own employees.

The salient features of the scheme are as follows:

(1) The compulsory policy up to a maximum amount of Rs. 3,000 is ordinarily exempted from medical examination and the same premium rates are applicable to both male and female lives. (2) The monthly premiums are deducted at source from the salaries of the subscribers. (3) The amount of policy/policies of Andhra Pradesh Government Life Insurance Department payable under its rules are exempted from attachment in execution of the decree or order of the courts of law. (4) No government dues are deducted from the policy amount except the amount that may be due by the insured on account of the dues of the Andhra Pradesh Government Life Insurance Department towards the arrears of premium or loan advanced against the policies. (5) Loans are advanced to the extent of 90 per cent of the surrender value to defray the expenses of certain specified objectives. (6) Policies are not lapsed as long as the policyholder remains in the service of Andhra Pradesh Government even for non-payment of premiums as the arrears with interest are recovered later. (7) The entire funds (cash balances) remain invested permanently with the Government of Andhra Pradesh and the government fixes the rate of interest payable from time to time. The rate of interest for the period from 1st April 1973 to 1974 was 6 per cent per annum. (8) The APG life insurance policies cannot be assigned to any financial or banking institution, etc. (9) In 1974 it was decided that the subscribers or policyholders paying upto Rs. 30 per month as insurance premia will be ordinarily exempted from undergoing medical examination. (10) The expenses are low because no agents are employed and no commission is paid. (11) Medical expenses and other general expenses are kept to the minimum. For instance, no prospectus is printed but a 'brochure' containing brief information is provided.

Although the business is run departmentally, the entire surplus is held to the credit of the policyholders and simple reversionary bonuses are issued.

The procedure for settlement of claims are simple and the claims are settled promptly.

the finance department in favour of the Andhra Pradesh life insurance department which is deposited in the State Bank of Hyderabad and operated upon by the cheques drawn in favour of claimants.

The insurance department continues to service the policies held by transferred personnel of the Hyderabad State Life Insurance Fund as a 'closed fund'. The fund is dwindling rapidly.

Government of Jammu & Kashmir State Insurance Fund

The insurance fund came into existence on 14th of October, 1938, with a view to insure the employees on the pay roll of the State Government. It is compulsory for all employees, whose age next birth-day is 18 years or over but not exceeding 45 years, holding permanent pensionable posts substantively or in an officiating capacity or holding regular or temporary posts.

The salient features of the fund are as follows:

(1) All receipts and disbursements are accounted for in the State Insurance Fund. (2) All assets of the fund belong to the insured employees. (3) No commission is payable to any canvassers. There are no administrative expenses. (4) All surplus funds remain with the government and the government credits the insurance fund interest at 4½ per cent per annum compounded annually, free of income tax, surcharge and super-tax. (5) The amount of assurance depends on employees' salary only and the maximum sum insured is Rs. 9,000 for the highest category of income group which is Rs. 401 per month and above. (6) There is provision for automatic increase in sum assured when the salary of an employee increases. The increase in assurance takes place from the following anniversary of the policy. (7) Extra premium is charged for female lives insured at the rate of Rs. 5 per annum per thousand of sum assured payable upto the age of 50 only. (1) Medical examination is required. (9) No income benefit or profit is payable on paid up assurances. The paid-up sum assured may be surrendered for a reduced cash payment. (10) Insurance certificates issued by the Insurance Fund are exempt from stamp duty. (11) The unpaid premium, during leave without salary, is treated as debt on

the insurance certificate at 5 per cent per annum interest and is recovered as arrears from the future pay in instalments not exceeding 5 per cent of the pay. (12) Should the amount payable under the insurance certificate become due before arrears in full or in part remain to be recovered, the amount outstanding (including interest at 5 per cent per annum compounded annually) is deducted from the benefit payable under the insurance certificate. (13) The valuation of the assets and liabilities is conducted after every three years by a qualified actuary. (14) The entire valuation profits belong solely to the insured employees. (15) Subject to overall supervision of the finance secretary to the government, the day-to-day business is conducted by the accounts officer, finance department.

Karnataka Government Insurance Department, Bangalore

Karnataka Government Servants (compulsory life insurance) Rules, 1958, provide for insurance cover to State Government officials who are in age group between 20-45/48 and the premium ceases with the date of superannuation (55/58 years).

The salient features of the scheme are:

(1) It issues two types of policies—(*i*) Endowment assurance with profit, (*ii*) Whole life assurance (limited payment with profit). (2) The premium charged is 10 per cent of the average pay and ordinarily not more than Rs. 100 per month. (3) Medical examination is compulsory. (4) Premiums are deducted from the salary. (5) If for any reason pay is reduced then subject to 10 per cent of the reduced pay being payable for a reduced insurance cover, the remainder of the sum assured is converted into a paid-up policy. (6) Amounts due to the government, in respect of: (*i*) house building advance, (*ii*) house purchase advance, (*iii*) house repair advance, (*iv*) advance for purchase of conveyance, (*v*) festival advance, are liable to be deducted from the proceeds of a policy. (7) Policies are non-assignable except to the Government of Karnataka. (8) Nominations can be made under the policy. (9) When an insured ceases to be in the service of the government and elects to continue to pay premium in cash, the Director of the insurance scheme may issue a premium receipt book for facilitating the recording of such cash payments of

premium by the authorities of the receiving treasury or bank. (10) The scheme provides for automatic non-forfeiture benefits and paid-up policies. (11) Duplicate policy is issued on a fee of Rs. 2. (12) Certified copies of proposals for insurance and of personal statements made before the medical examiner are supplied to the insured on payment of a fee of Re. 1 per copy. (13) Lives exposed to extra risk either on account of employment in hazardous occupation or defects in personal or family history are accepted on special terms and conditions. Female lives are also insured. (14) Loans on policies are granted for specified objectives and interest on loan is charged at 7½ per cent per annum. (15) Life insurance fund is invested in the general revenues of the State and a fixed rate of interest as decided by the government is granted from time to time. (16) The valuation is done on a net premium basis. (17) In the case of under-average lives and the lives subject to extra risk in lieu of the payment of extra premium, adjustments are made to sum assured and these have, therefore, been valued as normal policies. (18) The entire distributable surplus is allotted to the policy-holders in the shape of a simple reversionary bonus. (19) The surrender of bonus, apart from the sum assured, is not allowed. (20) No policies have been issued with a disability clause.

Kerala State Insurance Department

The scheme was started in 1902 and was made compulsory for permanent government officers who were not contributing to the provident fund. Later w.e.f. April 1, 1960 the rules were revised so that officers who had served for at least one year became eligible to join the scheme. Since the introduction of the scheme no revision of premium rates have been made.

The salient features of the scheme are:

(1) The receipts under various insurance schemes form part of the general revenue of the State. (2) The annual receipts and expenses are worked and incorporated in the administrative report. (3) There are no agents to canvass the government servants to join the scheme. (4) Loans are sanctioned upto 80 per cent of the surrender value of the policy at 6 per cent interest per annum. (5) Except for the

first premium, which must always be paid in cash, the subsequent monthly premiums are deducted from the pay of the assured. (6) Every insured is supplied with a premium receipt book in which the payment of each premium is acknowledged by the officer realising the same. (7) Actuarial valuations are conducted once in every five years. (8) Female lives are covered, but for the same amount of premium the coverage is lower for them. (9) All policies are with profit policies and during three quinquennial valuations (as on April 1, 1961, 1966, 1971) the bonus declared was Rs. 30 per thousand sum insured per annum. (10) Receipts and payment transactions are done through government treasuries only.

It is understood that a non-medical scheme upto a sum insured of Rs. 10,000 on any one life was under active contemplation of the government in the year 1975 and may have been introduced since then.

It may be of interest to note here that even after nationalisation of the general insurance business from March, 1, 1973 the Kerala State insurance department has been permitted to continue general insurance business of concerns in which the Government of Kerala have substantial financial interest under section 36 (1) of the General Insurance Nationalization Act, 1972.

Madhya Pradesh Government Life Assurance Department, Gwalior

The scheme of life assurance was started in Holkar State in 1924 and in Gwalior State in 1944.

With effect from April 1, 1949 the scheme of compulsory life assurance of Madhya Bharat Government employees came into force, which introduced new features as a result of the experience gained by the working of the scheme in Holkar and Gwalior States.

After the formation of the State of Madhya Pradesh in November, 1956, the scheme of compulsory life assurance was discontinued from May, 1965 consequent on the new Madhya Pradesh Compulsory General Provident Fund Scheme being introduced. The Government of Madhya Pradesh has also introduced the Government Servants Family Benefit Fund Scheme, which is administered by the Director of the

Insurance Department.

The salient features of the scheme are:

(1) The funds of the assurance scheme vest in the general revenue of the state and all claims are met by payment from the general revenue. (2) Balance sheet is prepared every year. (3) Triennial valuation is done by a qualified actuary. (4) The balance of insurance fund remains invested with the state government which pays interest to the Insurance Fund at the same rate which it allows on the balance of the general provident fund. The current rate of interest is 5.80 per cent per annum (July, 1974). (5) This is now a closed fund.

Directorate of Insurance, Maharashtra

In ex-Hyderabad State, the government servants were required compulsorily, as a service condition, to take out life insurance policy or policies from the Hyderabad State Life Insurance Fund.

The administration of the Hyderabad State Life Insurance Fund policies, on the lives of the allocated government servants as from July 1, 1961 (effectively from April 1, 1961) was taken over by the Directorate of Insurance, Maharashtra. The fund is at present being managed as a closed fund and no new risks are undertaken. The number of lives whose policies are serviced at present is about 7,000 (November, 1976).

Besides the above, the Government of Maharashtra has no Staff Insurance Scheme or Old Age Pension Scheme operating at present (1976).

Uttar Pradesh Government

The Uttar Pradesh State Insurance and Endowment Assurance Fund Scheme was started in December 1949. With the introduction of the Uttar Pradesh Liberalised Pension Rules, 1971, issue of new policies under this scheme was stopped.

The details of the scheme and/or how it is being operated now was not available.

The Compulsory State Insurance Scheme, Rajasthan

A scheme of compulsory state life insurance was intro-

duced in the former Jaipur State from August, 1943, as a complement to the pension and gratuity benefits in order that the "financial relief may be available to the dependents of the government servants in the unfortunate event of the cruel hand of fate snatching away the bread-winner before his survival to superannuation age, or to the official himself on his superannuation when there is a sudden drop in his emoluments". The scheme was confined to only the employees of the former Jaipur State.

Consequent on the formation of Rajasthan, the scheme was extended, in three stages, to the whole of Rajasthan from January, 1954.

In the first stage, it was extended to all the officials drawing Rs. 51 p.m. and above. In the second stage, it was extended to the officials drawing a pay ranging from Rs. 35 to Rs. 50 p.m. and in the last stage, it was extended to all the permanent employees irrespective of their pay.

The scheme is, at present, applicable to all the permanent employees of the government and all temporary employees. The first recovery is made from their pay for the month of March immediately succeeding the date of entry into government service.

Formerly there was a provision to pay premium at the rate of $6\frac{1}{4}$ per cent of the pay and those who desired could contribute premium upto 12 per cent of the pay or the maximum of scale of pay. Policies issued for premium contribution above 10 per cent of pay being subject to medical examination.

With a view to avoid the frequent submission of further declaration consequent on the increase in pay, slab rates of premium were introduced from January, 1968.

According to the slab rates of premium, the rate of premium recoverable, prescribed for different pay groups, is as below:

S. No.	*Slab rate*	*Rate of Premium*
1.	Upto Rs. 70 p.m.	Rs. 5
2.	Rs. 71 to „ 90 „	Rs. 7
3.	„ 91 to „ 140 „	Rs. 9
4.	„ 141 to „ 200 „	Rs. 14

S. No.	*Slab rate*	*Rate of Premium*
5.	Rs. 201 to Rs. 300 p.m.	Rs. 20
6.	,, 301 to ,, 450 ,,	Rs. 30
7.	,, 451 to ,, 650 ,,	Rs. 45
8.	,, 651 to ,, 900 ,,	Rs. 65
9.	,, 901 to ,, 1250 ,,	Rs. 90
10.	,, 1251 to ,, 1600 ,,	Rs. 115
11.	,, 1601 to ,, 2000 ,,	Rs. 145
12.	,, 2001 to and more ,,	Rs. 175

An official can contribute upto $1\frac{1}{2}$ times of the slab rates without medical examination and upto twice the slab rates of premium subject to medical examination.

There is no compulsory medical examination under the scheme. The medical examination is arranged where the life assured is considered to be sub-standard or where he contributes premium at a rate higher than $1\frac{1}{2}$ times of the slab rate of premium.

Incremental recoveries of premium are made, consequent upon the change of salary from one pay group to another, from the pay for the month of March every year irrespective of the month of increase in pay. Further assurances are issued in respect of such incremental recoveries after receipt and acceptance of the further declarations submitted by the official concerned. Entries in respect of such further assurances are incorporated on the original policy certificate itself. The recovery of premium is made at source, *i.e.*, through the salary bills.

Two types of assurances are issued by the department: (*i*) Endowment Assurance maturing at the age of 55, *i.e.*, superannuation age. (*ii*) Whole life assurance, where premiums are payable upto the age of 55.

The payment of the benefits and other sums payable under the assurance contracts entered into by the department are guaranteed by the government.

In order to protect the interests of the dependents of the government servants, provision exists in the rules that a person can nominate only persons from among the relations coming under the category of husband/wife, mother, father, brother, sister, son and daughter.

The policies issued by the State Insurance Department are non-assignable. The department does not recognise any claims under the assurances from any person other than the insured or his executors, administrators, nominee or nominees.

The policies issued are free from attachment and sale in execution of a decree and all such moneys remain exempt from attachment, notwithstanding the fact that owing to the death of a government servant, it is payable to some other person.

All the policies issued are with-profit policies and are entitled to bonus declared from time to time as a result of actuarial valuation.

Officials who cease to be in government service are given the following three options: (*i*) To continue to maintain the policy. (*ii*) To have the policy converted into paid-up free from the payment of future premiums. (*iii*) To take the cash surrender value.

The policies issued do not lapse so long as the official is in service.

Even after an official ceases to be in service, and if option is not exercised within six months, the policies do not lapse but are automatically converted into paid-up policies, the paid-up value being payable according to the terms of the policy.

Loans are granted upto 90 per cent of the surrender value of the policy for the following reasons: (*i*) To pay for expenses incidental to severe illness of the insured or any member of his family; (*ii*) To pay for the expenses of the insured or any member of the family making a journey under medical advice; (*iii*) To pay obligatory expenses on a scale appropriate to the applicant's status in connection with marriages, funerals, or ceremonies which by his religion it is incumbent on him to perform; (*iv*) To build a house for the occupation of the insured and his family; (*v*) To pay for expenses connected with the higher and technical education of the insured and his children.

Loans are repayable by monthly instalments, commencing with the first issue of pay after the loan is advanced. This is equal to 5 per cent of the loan amount or equal to the amount of monthly premium whichever may be less. Interest is charged at the rate of 5 per cent per annum to be recovered

monthly by the disbursing officers. Loans are not admissible in respect of policies financed out of the Jodhpur Contributory Provident Fund. No further loan is granted before the repayment in full with interest, of the previous loan, if any.

An actuarial investigation of the Fund is carried out, at least once in five years, under the Insurance rules. The surplus declared by the actuary available for distribution, is allotted to the policy holders in the form of bonus. In view of the economical management of the scheme, it has been possible to declare fairly attractive rates of bonus to the policyholders.

All receipts and disbursements of the department are carried to a separate head of account called the 'Insurance Fund' and this account is credited every year with interest at the rate paid from time to time on the money borrowed by the government. The fund is at the disposal of the government and investments out of the Fund are made by the government.

The expenses of the department are well within normal limits and the entire expenses are met out of the Fund. The valuing actuary has in his report stated that for a scheme like this the expenditure on management should not exceed 12 per cent of the income. The expense ratio of this department has always remained below this limit.

A policy would result into a claim by maturity when it has run a pre-determined period, as a result of which the sum-assured would become payable on the date of maturity. In order that maturity claims are settled as early as possible, it has been provided that claim forms are sent three months prior to the date of maturity for completion and return. Similarly on receipt of the death intimation the claim forms are sent to the department for completion and return. The settlement of the claims is made expeditiously on receipt of the claim forms complete in all respects.

The administrative set up of the department consists of a head office at Jaipur and a district level office at all the district headquarters of the state and supervisory staff at divisional headquarters. In all the districts, the requisite number of staff is posted in order to watch that the recoveries of premia are being made properly and to act as a liaison bet-

ween the head office and the various departments, at the district level. In addition, they keep a watch over the timely submission of returns, pending declarations and early settlement of claims.

To simplify matters, only two types of assurances are issued *i.e.* endowment assurance maturing at the age of 55 and whole life, where premiums are payable upto the age of 55 years.

No agents are appointed, and no literature is issued. It is of immense interest to note that the insurance policy is issued in Hindi. The compulsory state insurance scheme has been proving itself to be very progressive ever since its inception in 1943 and, particularly, since its extension to the whole of Rajasthan from 1954.

The scheme while fulfilling the aims and objects of the government, makes funds available at the same time for being utilised towards nation-building programmes, thus fulfilling a very useful and laudable objective.

Post-officc Life Insurance Fund or (PLI)

The first institution to be set up directly by the government to provide insurance facilities and annuity benefits was the post office insurance fund in 1883. This institution needs more than a passing reference as it continues to exist today and is extending its activities, and is expected to play a very decisive role in the development of the conservative form of life insurance business in India.

It was a pioneering step not only in the field of life insurance but also in the recognition by the State of its responsibility for the welfare of its employees and their families.

It was observed that under the centralised system of accounting the relationship between the management and its clientele was rather impersonal. To bring the organisation closer to its policyholders, decentralisation was resorted to in 1955. All policies were serviced thereafter by the heads of P & T circles in which the policyholders were residing.

When the life insurance business in the country was nationalised in 1956, it was decided that the PLI should not

be merged with the LIC as it was felt that an important amenity provided through the PLI to the government employees should be continued in the same form.[4]

There is another state run insurance fund—The Baroda State Government Servants Insurance Fund—which was started in 1939. On the integration of the Baroda State with the State of Bombay the fund was taken over by the Government of Bombay on May 1, 1949. It was subsequently taken over by the Indian Post & Telegraph Department to be managed as a closed fund. It was merged into the post office insurance fund and its fund (Rs. 20,08,000) was amalgamated with the postal life insurance fund on March 31, 1957.

It may be observed that the insurance yearbook gives the first separate statement for PLI for the year 1919 published in 1920.

PLI has introduced a non-medical scheme with effect from June 1, 1972. Under the scheme an insurant below 28 years of age can take policies without medical examination.

The postal life insurance fund has recently launched a programme to bring the insurance to the notice of all defence personnel and government employees and its estimated business is likely to increase substantially.

Postal life insurance work relating to defence services is now controlled by the Director of the Army Postal Service from June 1, 1975 according to an announcement made by the Director General of the Posts and Telegraphs.

The salient features of a PLI policy are:

(1) Lower premium rates; (2) higher bonus; (3) premiums deductible from monthly pay bills; (4) Premiums eligible for income tax rebates; (5) Prompt payment of loans and claims to meet immediate requirements; (6) *Paid up policies earn bonus*; (7) Policies are easily convertible; (8) Rebate of 2 per cent on cash payments of premium annually in advance; (9) Provisions of assignments/nominations; (10) Accounts are maintained in the state's capital of the residence of an insurant; (11) Payments can be effected at any post office at the insurant's choice; (12) All PLI policies are with profit; (13) Non-medical policies are issued for those who are of 28

[4] *Saga of Security*, LIC, Bombay, pp. 121-23 and 196-98.

years of age under certain conditions; (14) PLI policies and loan bonds are exempted from stamp duty.

PLI is a government run insurance scheme for Central and State government employees, and employees of local bodies and government aided school colleges and universities.

STATE INSURANCE CORPORATIONS

To provide a proper framework for the state insurance corporations, which are essential for the rapid expansion of the life insurance business to all parts of the country urban and rural, review of the Insurance Act 1938 and the LIC Act 1956 should be taken in hand early.

The states can mobilise substantial resources by selling annuities to those who retire from active service or business life but desire to have a steady income, which not only provides the necessities of life but also the standard of life one is used to.

The States will, no doubt, initiate action to determine their requirements for qualified and trained personnel, retention of offices out of the existing LIC offices and build new office accommodations in semi-urban, newly developed and developing rural areas so as to bring the service centres as near as possible to their policyholders.

Allied actions such as studies in depth in institutes, training and tests of proficiency of personnel, familiarity with records to be taken over, office equipments, micro filming of records, etc., should all be attended to early.

This will enable the state insurance corporations to conduct the business efficiently from their inception.

It is suggested that to start with the maximum insurance cover that state insurance corporation may provide on any one life be limited to Rs. 25,000 sum assured. The policies underwritten by the state corporations say upto Rs. 1 lakh on any one life be done in consultation with the LIC and the excess of Rs. 75,000 over Rs. 25,000 be re-insured with LIC. Any policy or policies of more than Rs. 1 lakh can be insured directly with the LIC or through the state corporations on conditions that may be specifically prescribed. Later, the limits may be suitably revised upwards for retention by

the state insurance corporations.

The state corporations should encourage deposit linked level term insurance policies say upto the age of 50 or 55 years either directly or as group insurance of specific business/ service groups in collaboration with banks. For this type of schemes branches of banks that have qualified and trained insurance men in their branches to handle insurance business could be utilised as agencies.

The State insurance corporations may implement the suggestion that all policyholders will be medically examined for a second time, say, after a policy has been in force for two years and more.

The second medical examination is to be conducted for the insured under the 'non-medical scheme' where a policy has been of two years. In respect of other policies where medical examination was initially done, the second medical examination is to be conducted after a policy has been in existence for three years.

The Ministry of Health and Family Welfare, Central Government is encouraging doctors to settle in rural areas. The state insurance corporation can assist in accelerating the process by prescribing that the second medical examination be done by qualified doctors settled in nearby areas and seek partial reimbursement from the Ministry of Health and Family Welfare of the Central Government. The opportunity to obtain an additional steady income will encourage doctors to settle in semi-urban and rural areas. The examination will bring out lacunae, if any overlooked, in the proposals and also provide an opportunity to the insured to get himself treated for any deficiency or habit, which adversely affects his health. This procedure also benefits the insurance corporation, the society and the individual through increased healthy life and longevity.

Any shortcoming in the policies are to be sorted out and clarified within five years of the issuance of policies. Thereafter a policy should become indisputable except on grounds of fraud.

The State Insurance Corporations should encourage 'Direct Business' at a lower premium, say 7.5 per cent lower than the standard rate.

The state insurance corporation may prefer to issue all policies as 'participating policies' and thus the policyholders will belong to one class. This would facilitate maintenance of accounts and equitable distribution of any surplus during a valuation period. In addition to 'reversionary bonus' it is suggested that 'maturity bonus' be introduced to encourage retention and prevent the business going out of the books.

The 'maturity bonus' may be declared and given at a higher rate for a policy that is contracted for a period of 25 years or longer and matures as such. Other policies of shorter duration may be given a prescribed lower rate of maturity bonus. Tentative suggestions are given below:

(*i*) Policies of and below 5 years' duration	No maturity bonus.
(*ii*) Policies over 5 years but below 10 years' duration	50 per cent of the prescribed bonus.
(*iii*) Policies over 10 years but below 15 years	60 per cent of the prescribed bonus.
(*iv*) Policies over 15 years but below 20 years.	75 per cent of the prescribed bonus.
(*v*) Policies over 20 years but below 25 years	90 per cent of the prescribed bonus.
(*vi*) Policies of and over 25 years' duration	100 per cent of the prescribed bonus.

Later the suggestions may be modified and additions or alterations made therein in the light of experience.

To encourage savings and obtain insurance protection amongst young people—say 30 years of age and below—the maturity bonus be made more favourable for policies of Rs, 25,000 sum assured and below, and maturing at age fifty years or beyond, an 'additional maturity bonus' at the rate of 20 per cent of the total amount of vested reversionary bonus be allotted on attaining the age of surviving the stipulated period—other conditions during the continuance of the policy remaining unaltered.

Annuity or pensions for old age for self and separately for dependents can be extensively encouraged by realistic

favourable terms of interest by the state corporations. The mortality rates to be used for calculating either the premiums for such annuities or for the annuity instalments should be based on tables of experience not older than 20 years of Indian lives. As and when results of further studies become available, the mortality rates should be taken into account on the basis of tables incorporating experiences of say 10 years. This would encourage considerable interest in the study of population statistics in its various aspects which are essential for a proper perspective and long term planning for all socio-economic activities and to evaluate the results of such activities.

Institutional agencies like banks, cooperatives, churches, religious, social and other charitable trusts, labour unions, etc., should be encouraged to act as agents to secure group business or proposals on individual lives in respect of their constituents on a voluntary service basis or at nominal agency commissions to defray their additional expenses say Re. 1 per thousand after a slab of business face-value of Rs. 10 lakh or 1000 lives have been covered.

It is suggested that the expenditure for conducting and maintaining life business should be prescribed statutorily. The excess expenditure, if any, is to be borne by the state corporations either through grants, subsidy or preferably from a share of the valuation surplus prescribed for the state governments.

The legislatures will then have a periodical opportunity to examine the workings of the corporations in the light of suggestions that other individuals and specialised agencies may bring out as a result of analytical studies through regional journals or other publications.

The offices of statutory tribunal are recommended to be set up in each region to settle any disputed claim. No court fee to be charged for policies with face value of Rs. 25,000 and below. No claims are to be repudiated without reference to the court.[5]

The state also has a duty towards those who need insurance protection but who are not proficient in English or

[5]See Chapter 4, p. 85.

prefer to have policies in regional languages.

The regional insurance journals will encourage and supplement efforts of the state insurance corporations to spread the knowledge of insurance benefits rapidly to ever widening circle.

The cumulative effect will be to provide increasing and expanding insurance protection to workers, salaried and income earning people during their working life. It will encourage making provisions for life annuities for old age and thus mobilise enormous funds voluntarily from citizens to accelerate developmental processes.

The progress of availing of insurance protection will be accelerated and will lead to issue of insurance policies in regional languages.[6]

The land development and planning of townships/villages therein can best be done by the state governments according to their own priorities. The developments at any one area can be fixed according to the financial constraints and other considerations. This development should be encouraged through Self-liquidating Revolving Rural Development Fund. To direct deposits in the Self-liquidating Revolving Rural Development Fund of each state, fiscal concessions may be given in the shape of one per cent higher interest rate than the maximum prescribed for the bank deposits for five years and more.[7] The maximum amount of deposit to avail of this concession should be say Rs. 50,000 in any one individual name. The interest return from such deposits may also be made tax free for the next 10 years or so, to secure larger funds at the initial stages.

[6]We find in 'Our Centenary Year' 1936, volume of the Liverpool and London and Globe Insurance Company Limited that their insurance contracts were printed in the following languages:

English	Erse	Greek	Norwegian
Afrikaan	Flemish	Italian	Portuguese
Danish	French	Japanese	Spanish
Dutch	German	Magyar	Swedish

[7]The interest rate on secured industrial debentures has been raised from 11 per cent through 12 per cent to 13.5 per cent in the budget proposals on February 28, 1981. The interest rates on deposits may likewise be raised to 13.5 per cent.

The reclaimed and developed lands in rural areas will facilitate planning of model townships/villages and development of housing plots and buildings. The state insurance corporations should utilise its funds for building office accommodation not only for itself or the other State Corporations but also for other commercial organisations and trading companies. Industrial estates can then be planned and developed in many areas in a regulated manner.

The size of plots and the houses should be planned as provided for houses in category 'D' towns. This will encourage many people to settle in the rural areas being converted into semi-urban areas.

Great fillip can be given to this process by suggesting that persons of 50 years of age and above who have been or are either insured in the LIC and/or are the members of the provident funds will be entitled to buy houses on down-right cash or instalment basis to the extent that the sum assured or the deposits in the provident funds permit them to do so.

There should also be provision for cheaper houses for weaker sections for whom cooperatives should be organised. To start the cooperatives and assist them, qualified and trained managers, secretaries and staff should be provided. Thus the cooperatives which are now developing into giant size enterprises can participate and actively influence developments for economic advancement and social regeneration.

The cooperatives could help not only in econmic programmes but also convey the message of family planning. The class of members with 2/3 children may be given certain concessions in preference to those who have more children. This may take the shape of a rebate of interest payable on the sums borrowed for purchase of houses, purchase of consumption items and other credit advances granted to such members.

The move towards the newly planned townships in the rural areas can be accelerated if the purchase of houses or developed plots for construction of houses are kept out of the purview of the Land Ceiling Act for the next 25 years or so. This concession should be given for one unit only per individual who has any property in the urban areas covered under the Land Ceiling Act. Similar planning should be done

for large number of villages.

Part of the additional accruing funds of LIC and other provident funds should be utilised through the Self-liquidating Revolving Rural Development Fund.[8]

Tax free incomes of charitable institutions, trusts, religious endowments and wakfs should be encouraged to be invested in the above-mentioned fund. Deposits may be 10 per cent of their income annually rising to 50 per cent at a graduated pace in 5 to 10 years time.

Similarly the money received for purchase of annuities and super-annuations can be invested in the above fund and such purchasers of annuities and superannuation benefits should be given priority for settling in the new townships and villages of the rural areas. This will result in creation of assets, which the contributors can own and the Fund could develop other areas without blocking its money, and create assets for others to settle therein.

To rectify the existing imbalances between rural and urban areas, it is desirable that fiscal concessions be made in favour of rural developments so that the process of integrated growth of all areas is accelerated.[9]

The detailed information of the functioning of the State insurance corporations should also be published officially. In the new or revised insurance act, similar provisions as in Section 116 A of the Insurance Act of 1938 may be prescribed.

The state insurance corporations may be so named that the fundamental functions of the corporation such as the following are brought out:

(*i*) The provision of life insurance protection during working life;
(*ii*) Encouragement and protection given to savings;
(*iii*) Feasibility in securing tangible assets; and
(*iv*) Life annuities for old age.

[8]See Chapter 4, p. 105

[9]Assurances to this effect were given by Smt. Indira Gandhi, President of the Indian National Congress (I) and Prime Minister of India in the Kisan Rally on February 16, 1981.

A few titles are suggested:

(*i*) National cooperative life insurance, annuity and deposit corporation; and
(*ii*) National cooperative life, annuity and saving corporation.

The state insurance corporations may have their own mottos such as:

(*i*) "Aapki Khushhali Hamari Khushi" (आपकी खुशहाली हमारी खुशी).
(*ii*) "Sukh and Sambridhi". (सुख व समृद्धि).

or other appropriate mottos selected by each State, or Region.[10]

For rapid expansion of insurance the states may be given greater statutory authority and autonomy to plan and execute extension of insurance cover, industrywise or regionwise or both and also formulate plans for investment of the funds through specified channels for which the Central Government may provide life insurance funds centrally collected.

This will encourage each state unit to maximise underwriting life insurance business, encourage group insurance schemes, salary saving schemes, annuities and other types of policies including 'Direct Policies'.

It is foreseen that some of the state corporations will be able to cover 10 million lives within less than a decade.

This will further pave the way for similar viable units or jivan bima zonal units at the earliest date, which may be agreed for an area within its jurisdiction, and its operations supervised by a state corporation. This will accelerate the introduction of universal insurance to all eligible persons belonging to the age of twenty years and above.[11]

[10]The Food Corporation of India has been split into five regional units. It is also understood that each unit will have a different name and mottos and may compete with each other.

[11]Shri M.C. Shah, minister of revenue and civil expenditure stated during Parliamentary Select Committee discussions that the State of Costa Rica with population of 8,000,000 has compulsory life insurance.

Non-medical insurance schemes should be extended as a condition of service for all Central and State Government servants, employees of public sector undertakings, banks, large corporations or other groups employing say 100 or more persons. If medical examination before entry into service is prescribed, the new proposals should be entertained within 3 months of such medical examinations and special medical examination should be done only in exceptional cases.

The erstwhile development officers/agents trained as welfare officers can be of immense help to the employers and employees in introducing group insurance, salary savings or individual policies and liaise on behalf of the policyholders or their employers with the insurance corporations, Central or State.

The State insurance corporations may consider the following suggestions helpful for rapid expanion of insurance to achieve the final objectives of universal insurance earlier than the targetted date.

Term group insurance should be extended to adult workers registered in employment exchanges under suitable planned group policies by state corporations. The usual procedure of photographs, duly completed application forms with clear identification marks and witnesses, etc., should be prescribed. The insurance certificates are to be issued by the relevant branch offices within a month. The term insurance for workers registered in employment exchanges will be an intermediary step to unemployment insurance. The unemployment insurance is, however, extremely expensive and it will be better if employment opportunities are created so that this dole system does not become excessively large[12,13].

[12]The Government of West Bengal has decided to pay Rs. 50 per month to those registered in employment exchanges for 5 years and more and whose family income is less than Rs. 500 per month. It is estimated that over a lakh of such persons on the roll of the employment exchanges will benefit. Budget provision has been made for the current year for 90 million rupees—Radio News 8.00 a.m., dated February 26, 1978.

[13]The Government of Punjab has likewise provided for unemployment insurance in respect of persons registered in the employment exchanges and kept on Live Registers for more than 5 years. The government has prescribed Rs. 40 per month for matriculates and equivalent and Rs. 50 per

(Continued on next page)

The casual and unemployed workers are beset by anxiety whether the next day's meals will be supported by a job or even a daily wage. This anxiety is one of the great uncertainties of life both for an individual and for a group. However, such individuals and groups are essential for the social weal and to sustain the productive efforts of society. It is, therefore, suggested that term insurance for such groups for limited sums say a minimum of Rs. 1,000 as welfare measure and higher sums by steps of Rs. 500 upto Rs. 3,000 be introduced on payment of premium by the insured.

The unpaid insurance premiums after one paid annual premium may be carried over as a lien on the face value of the policies to express the government's interest in the welfare of such people. This should be till such time as full employment or unemployment relief is extended to such groups.

Individual policies say upto Rs. 10,000 and additional insurance amounts exceeding Rs. 10,000 be in the units of Rs. 2,000, Rs. 3,000, Rs. 5,000 or Rs. 10,000.

The advantage will be that the policyholder can assign a policy to authorities of income tax, wealth tax, banks, other parties, housing cooperatives, firms, etc., and nominate separate beneficiaries without embarrassments. The difficulties of office accounting will be less in proportion to the advantage derived by the policyholders.

Loan operation against individual policies of insurance corporations or banks will be easier. The insured can maintain the remainder of the policies and the chances of larger lapses will be reduced.

Similarly, in group insurance the maximum insurance for an individual should be say Rs. 10,000 sum assured and additional extra insurance to be covered under separate group policies of like amounts and/or under individual policies.

(Continued from previous page)
month for graduates and higher equivalents. The estimated total cost is 25 million rupees for the current financial year.

The Punjab Government proposes to approach the Central Government to subsidise the scheme on 50:50 basis—*The Tribune*, dated March 9, 1978.

It is suggested that total insurance of death benefits—under all group insurance policies should not normally exceed Rs. 50,000 on any one life.

Persons requiring higher death insurance cover should be specially screened.

The above suggestions can be suitably modified in the light of experiences.

The banking services are being rapidly increased to penetrate into rural areas. The rapid expansion of banks in rural and semi-urban areas will now be accelerated according to a recent decision of the Government of India.[14] This will be reflected in subsequent reports of the Reserve Bank of India—relating to the developments of banking in India.

Banks and insurance are service institutions and primarily deal with savings and wealth already created. They should be declared as essential service.

The banks, as agents of state insurance corporations, can procure massive insurance business with mutual benefits to the state insurance corporations and themselves in mobilising resources and using them for further economic and developmental purposes.

The banks may employ trained and qualified agents/development officers as bank employees, so that the banks may act as agents to encourage all bank depositors to subscribe to deposit linked level term insurance schemes and further induce a maximum number of depositors to take advantage of other schemes and classes of insurance.

It is believed that service charges to the banks should be at a rate not exceeding 2 per cent for each year for the premiums collected as agents for the first, second and third year of a policy. This will provide the banks with an adequate incentive and margin of profit.

The additional incidental advantages that will accrue to the banks will be that they will have the personal account of such policyholders and others and will be able to provide other banking services to the clients with mutual advantage to both.

[14]Large number of Rural Banks are planned to be set up during 6th Five Year Plan.

Term insurance of depositors in savings bank accounts/fixed deposits, say upto Rs. 25,000 and/or equal amount to the minimum deposit in every accounting period of six months, say ending on 30th June and 31st December, should be compulsory. The specified period may be fixed, say upto 55 years of age for such depositors. The disabilities or otherwise of hazardous occupation of such depositors (male or female) may be studied and the extra premium required should be taken care of through the 'Special Funds' created or out of government's share of valuation surplus for payment of the extra premium necessary. The normal premiums are to be adjusted from the deposit accounts. This will encourage rapid accretion to deposits in savings bank accounts/fixed deposits and reduce withdrawals.

It is suggested that term insurance on individual lives be popularised and, in the first instance issued through the offices of banks in respect of their account holders. The banks should take out group term insurance policy for their clients for a maximum fixed sum assured say Rs. 10,000 on any one individual life and sell the individual term insurance to their clients on the spot. The procedure should be that a photograph should be taken on the spot and an application taken from the proposer to obtain usual relevant information with identification marks, etc., duly witnessed.

In prima facie clear cases say up to 40 years of age, a cover note effective for a month may be issued to be replaced by an insurance certificate within a month.

The details in respect of these policies could be kept on loose leaf ledgers in the banks and two copies of the same could be transferred to the insurance offices to be maintained: (*i*) in the ledger of the branch office within whose jurisdiction the branch of the bank comes or the insured resides, and (*ii*) in the head office of the state corporation.

This will encourage the concept of term insurance and later a bank could extend this type of group insurance to members of other organisations and other fields such as mortagage protection scheme, etc., relevant to the bank business.

Here the trained insurance personnel in the employment of banks will be able to show their mettle.

Branches of banks employing erstwhile agents and development officers and having their offices in rural areas can then conduct life insurance business, also group insurance and annuities and accept premiums besides accepting fixed and long term deposits and operating loan accounts of individual life insurance policyholders. Such branches can also credit initial payment on receipt of a claim intimation as discussed earlier. Separate deposit books for payment of premiums be introduced for the constituents of the bank. The counterfoil stamped by the bank should be evidence of payment of the premium, the second foil portions would be retained in the Bank and the third portion, would be sent to the regional unit of the state insurance corporation for entry of premium in their books. At the end of every five years the insurance corporations should reconcile its accounts and issue a pucca receipt through a bank branch to the insured.

The above clientele services will attract a larger number of clients to the banks, encouraging habit of thrift and savings.

State insurance corporation should encourage setting up of a 'Women's Wing' for securing new business, catering exclusively for insurance and annuities through specified offices exclusively managed by women.

There is every reason to believe that a large number of women will be willing to study and pass tests to obtain proficiency in different fields of activities of office management and even obtain actuarial qualifications.[15] The women can form an adequate field force. They will be able to combine social service activities including family planning, welfare of children and other special problems facing women, with insur-

[15] *The Female Membership of the Institute of Actuaries:*

	31st July, 1955	*31st July, 1976*
Fellow	8	39
Associate	3	29
Affiliate	Nil	1
Student	18	212
Total	29	281

Women were not admitted to the Institute prior to 1920. *The Institute of Actuaries Yearbook*, 1976-77, p. 276.

ance field work. This will benefit all those who will be brought under the protection of the insurance umbrella and at the same time open up an interesting profession for educated women.

The provisions under the Married Women's Property Act 1874 through life insurance policies safeguard the financial independence of married women. However, women are sometimes denied and deprived of legal benefits such as equal share in parental properties, and thus, the objective of such a legislation is nullified. Provision for protection of such rights through life insurance policies incorporating Married Women's Property Act can be profitably brought to the notice of bequeathers and beneficiaries by women workers.

The rapid spread of insurance amongst women would safeguard the economic independence of spinsters, widows, women property-holders and independent income earners through profession or service.

The women field workers will be advantageously placed to bring out special and specific problems relating specifically to women which can be further studied and necessary and further legislation enacted, if existing legislations are found to be inadequate.

RESIDUAL LIC FUNCTIONS

We now deal with the LIC and suggest its future functions.

It is suggested that the existing life insurance business be treated as 'closed series'.

The continuing LIC policyholders will benefit, as will be obvious from the advantages that the policyholders of the erstwhile insurers, whose business had been taken over as controlled business, are now getting.

The precentage of policies in the two groups (special group and group I) at the time of the tentative scheme of differential bonus totalled over 81 per cent and if the policies under group II are also taken into account it is 90 per cent.

It will be seen from the statements that the number of erstwhile insurers who were either in special group or group I or group II increased in number substantially since the final

differential bonus scheme came into force on October 15, 1961.

There were 99 companies in group IV of the tentative scheme of differential bonus[16] (*i.e.* not giving any bonus) and the Central Government had to provide seven million rupees to prevent the face value of policies being reduced in respect of some of the erstwhile insurers as prescribed in Sec. 14 of the LIC Act, 1956. The number of companies have been reduced to fifty-three in the final differential bonus scheme which came into force on 15th of October 1961.

Forty-six companies out of the 99 mentioned above moved out of the 'no bonus group' to bonus paying groups, which shows that as a closed series the continuing policy-holders obtained a better return on their policies.

The Postal Life Insurance Fund provided higher bonus in respect of policies issued prior to March 31, 1940 and treating them as 'closed series'.

The LIC will have many important functions after the existing insurance business are made into a 'closed series' and the state corporations set up. It will be providing reinsurance benefits in respect of sum assured over Rs. 25,000 suggested for State insurance corporations initially. Later, the limit may be progressively raised to Rs. 100,000 which may be exclusively underwritten by the state corporations and the excess sum assured be reinsured with the LIC.

When proposals for sums of more than a lakh of rupees are made, LIC may prescribe conditions such as disclosure of permanent income tax payment number, banker's name and account number and may ask for a special medical examination.

The LIC would then concentrate and encourage all types of group insurance policies by examining proposals and providing expert advice and may suggest draft schemes to cover varied types of groups and classes.

The following suggestions are illustrative:

1. Group insurance for income tax payees.
2. Group insurance for passport holders with a mini-

[16] Appendices 29 and 30.

mum of Rs. 25,000 and maximum of Rs. 1 lakh. This could be made compulsory. New passports may be issued to those who have taken insurance cover. It should be prescribed in passport applications that those who are already insured for any sum should attach a certificate from the LIC or the state corporations.[17]

Similar schemes of group Insurance can be prescribed for all graduates, engineers, medical students, science, arts or technical diploma holders, B.Eds. etc. to be under written by state insurance corporations.

3. The foreign business should be reserved as the exclusive domain of the LIC (many Indian personnel are working in projects abroad—Libya and other countries in Africa, Middle East, Far East, etc.).
4. LIC should have exclusive jurisdiction to conduct reinsurance business within or outside India.
5. Mortgage protection schemes by banks, by cooperative societies or house building societies should be provided at a small addition to interest rate on loans to provide the benefit of automatic group insurance protection to individual purchasers and builders of houses for their own use.
6. Insurance of voters say Rs. 10,000 (Joint Lives) between the age group of 21 and 50 or 55 years of age who are married and have three or less children within the following categories: (*a*) one child or no child, (*b*) two children living, (*c*) three children living.

   The group insurance premium rates for acceptable married people in category (*c*) may be 100 per cent of the standard rates, (*b*) 85 per cent of the

[17]Passports: During the nine month period from June 1977 to February 1978, the nine regional passport offices received 10,32,446 applications for passports and 7,51,588 passports were granted, Mr. Samarendra Kundu, Minister of State for External Affairs told Mr. K.L. Gupta, M.P..

standard rates, and (*a*) 70 per cent of the standard rates.

A declaration at every two years interval on the policy anniversary will be necessary to get the benefit of (*a*), (*b*) and (*c*) categories of premium rates. The insurance cover will lapse and cease as soon as a family has more than three children. This is likely to encourage voluntary family planning.

The number of children may also be shown against the name in the voters list. The details of such schemes may be examined in consultation with the different political parties, the government and the election commissioner.

7. Group insurance schemes drawn up by State Insurance corporations for persons registered in different categories of trade/qualifications, in the employment exchanges. Details can be worked out by them for approval of LIC in the initial stages.
8. Other functions of LIC may include the following: (*a*) Examinations of schemes from the state corporations and advising the Centre/State Governments; (*b*) Supervising study of mortality experiences and provide training in the techniques of insurance. (*c*) Coordination with Registrar General of Births and deaths and the census authorities; (*d*) Providing study facilities and arranging practical training in all other branches of Life Insurance including practical training in office management; and (*e*) To draw up, examine, advise or recommend introduction of new schemes of business for individual groups or areas and assist in their implementation.
9. The LIC may be entrusted with other responsibilities as follows: (*a*) All residual activities, after the functions of the state corporations are prescribed, exclusively are reserved for LIC. It should be reviewed every 5 years; (*b*) It should arrange for training and posting of qualified persons, actuaries, agents/development officers trained as welfare officers and other professionally qualified persons in insurance business. In effect it should function as a

clearing house and employment exchange for persons qualified in the technical and allied aspects of insurance business; (*c*) The LIC should also act as a centre for study and training of techniques of insurance problems pertaining to other countries. It can thus become the invisible earner of foreign exchange and exporter of good-will and understanding with mutual advantages; (*d*) It should undertake reinsurance business from the littoral states and other friendly countries; (*e*) LIC can act as advisory consultant to neighbouring countries to set up their insurance organisations; and (*f*) It can act as a clearing house of knowledge for all state insurance Corporations in respect of prevalent insurance systems in other countries and suggest new ideas.

6

Progressive Legislations

LAW has to regulate dealings and relationship between different parties in society. It is a Body of enacted or customary rules recognized by a community as binding.

It is the function of the Parliament and Legislatures to formulate, define and prescribe Law.

Institutions and professions should be subject to public scrutiny. The functions of law and mode of operation of lawyers should also be within the ambit of public scrutiny.

Social scientists and others have rightly questioned the effectiveness and justification of many existing laws.

At present, the working of the Insurance Law is ordinarily not understood by the public as it appears to be mysterious and hence they feel confused. There is no good reason why it should be so. Much of the Law is commonsense and is in the interest of the society. One does not have to be a lawyer to understand it.

The lack of public understanding and criticism, has been, sometimes, unwittingly fostered by lawyers which has been bad for both, law and society.

The Insurance Law may be defined as that Body of Principles and Rules which determine not only questions arising out of insurance contracts between individuals or groups and the Insuring Body, but also the devolution of rights of property derived under them. It also includes regulations to control the operations of the Insuring Body, how it will invest the funds entrusted to its care, the returns it has to submit, and other matters incidental thereto.

Contract

A contract is a transaction wholly or mainly of a legal binding promise or set of promises. To be effective the intention of contracting parties must be based on true agree-

ment. Insurance law, should, therefore, be intelligible to prospective insurers, agents, policyholders and others in the insurance profession.

Life insurance contracts are, in the main, long term contracts, and in the absence of any fault or any fraud the *insurer has no option to cacnel the insurance.* On the other hand, contracts in general insurance are usually annual contracts and the insurer has the option to refuse renewal at the end of each and any period of insurance. In some cases, the insurer reserves to himself the right to terminate the insurance at any time on a proportionate return of premium in respect of an unexpired period of risk.

The contingency insured against under a fire, accident or marine insurance contract may or may not occur but the *event insured against under life assurance contract is bound to happen.*

The contract of general insurance continues to be *a contract of indemnity* and life insurance has become an *assurance contract.*

In general insurance, the claim to an indemnity by an insured cannot exceed the value of his interest. An interest is required to be established by the terms of the contract itself. The insurer indemnifies the insured against pecuniary loss arising from the event insured against.

Life insurance being a contract of assurance, it is now established by usage that *provided a bonafide interest existed at the date of contract no interest need be shown at the date of loss.*

In other words, the amount recoverable under a life policy refers to the interest at the time of making of a contract.

In Life insurance, certain specific questions are asked in the proposal form, which commonly affect general mankind. But there may be other circumstances affecting particular individuals, which, had it been known at the time of proposal, no doubt would be made subject to specific enquiries by the insurer. These are expected to be elicited through positive replies to specific and general question asked by the medical examiner of the insurer. The Insurer also expects its agent to make specific enquiries and include them in the agent's

confidential reports. This is supplemented by special reports whenever desired. The onus of good faith lies equally on both the parties and their agents to the contract.

The proposer has ordinarily within his knowledge all the facts which are material to the risk. He is morally and legally bound to disclose all matters, which in point of fact, are material to the contract. We thus see that insurance contract is dominated by the legal maxim *uberrima fides.* If the proposer conceals or misrepresents material facts the contract is vitiated. *Deliberate* concealment or misrepresentation amounts to *fraud* and the policy is legally void. Innocent misstatement or misrepresentation renders the policy *voidable* at the option of the insurer up to two years. In practice, policies are usually allowed to continue, *subject to adjustment* if the insurer is satisfied that there was no intention on the part of the assured to defraud it. It has been suitably provided for in section 45 of the Insurance Act 1938. The scope of this section and the steps taken by LIC under this section will be examined later.

Representation and Warranties

The statements which adversely affect the contracts of insurance are referred to as 'Representation and Warranties'.

Representation: (1) Need only be substantially correct. (2) Must be shown to be material before the misrepresentation can be considered as sufficient cause to void the contract. The nature of the misstatement made must be proved to have acted as an inducement to the insurer to accept the risk which he would not have done if the correct replies were given. (3) Not necessarily incorporated in the policy.

Warranties: (1) Must be strictly and literally true (2) Any misstatement is sufficient to void the contract, whether it is material or not. (3) Must be incorporated in the policy either *expressly* or by *reference.*

In life insurance policies there is a recital clause by which the answers given in the proposal and the replies made to the contract medical examiner are made the basis of the contract and thereby give them the effect of warranty.

Validity of Contract

The life insurance contract like other contracts has the following essential conditions: (1) an offer and its acceptance, (2) the capacity to contract, (3) the legality of the object of contract, and (4) a consideration. The LIC solicits life insurance proposals. It provides the proposal forms to be filled in by the intending insurers. After the usual formalities of agents' reports, medical examiners' reports and other inquiries are completed, the LIC issues letters of acceptance, subject to certain conditions specified therein, indicating its willingness to enter into a contract or grant a policy. The term 'letter of acceptance' is, therefore, misleading because if it were a true acceptance of an offer, it would not contain any further conditions. Also, the commencement of the risk does not necessarily commence with the completion of the contract. It is sometimes back-dated and sometimes altered or modified by ascertaining the intention of the proposer as expressed in the proposal or subsequent letters exchanged in respect of said proposal.

The payment of the premium is usually necessary to complete a contract of life insurance and the risk of life is commenced to be covered from the date of receipt of the premium even though the essential document, *i.e.*, the life policy may be issued by the LIC subsequently. Such life policies also contain conditions, particularly regarding admission and proof of age. If the age stated in the proposal and included in the policy is subsequently proved to be different, the sum assured is adjusted but not increased and in case of lower age the excess premium paid may be refunded or adjusted in future premiums.

The policy also evidences a large number of conditions and privileges which are printed on the back of the document.

The preparation of the policy is compulsory under the Stamp Act and must be executed within a month of the receipt of or taking credit for the premium. The relevant section 66 of the Stamp Act 1899 (Act II of 1899) as amended upto May 1, 1944 is quoted below:

Any person who (*a*) receives, or takes credit for, any

premium or consideration for any contract of insurance, and does not within one month after receiving or taking credit for, such premium or consideration, make out and execute a duly stamped policy of such insurance, or (*b*) makes, executes or delivers out any policy which is not duly stamped, or pays or allows in account or agrees to pay or allow in account, any money upon, or in respect of, any such policy, shall be punishable with fine which may extend to two hundred rupees.

Discharge of Contract

Agreement: Just as the parties make a contract by agreement, they can also end it by agreement. The assured and the life office may agree that on making a cash payment, termed as surrender value, the policy shall become void.

Novation: An agreement may relate to the variation of terms of the old contract, such as conversion to a paid-up policy or alteration of a whole life insurance to an endowment insurance. This may also extend to the enjoyment of special benefits guaranteed under a policy such as disability benefit, or extended term insurance benefit. It is, therefore, not always easy to determine whether the old contract of a life assurance has been merely modified or a new contract has taken its place. In special types of life insurance contract, certain obligations under it are automatically extinguished in favour of further obligations already specified in the contract. In such cases the earlier contract is stated to be discharged by novation.

Breach: The life insurance contract contains its own terms and conditions on which it shall be discharged. Ordinarily if the premium is not paid within the specified time, the contract is discharged and there is no remedy for breach. However, certain reliefs such as automatic extension or guaranteed surrender value or automatic paid-up value are granted to the assured to allay the hardship he might feel on account of his default, after he has paid a considerable number of premiums.

Performance: A contract is finally discharged by its performance and the usual method under a life insurance policy is by payment of the money promised or payable under such

a contract.

HISTORY OF INSURANCE LEGISLATION IN INDIA

Statutory insurance legislation may be said to have commenced in India from 1912 (Act V of 1912 Provident Insurance Societies Act and Act VI of 1912 Indian Life Insurance Companies Act). The first act deals with societics which transact life insurance within certain limits and undertake insurance on marriage, sickness, and a cognate class of insurance business on a small scale, and was to be administered by the local governments.

Indian Life Insurance Companies Act, 1912 dealt only with life insurance companies which was administered by the Central Government.

Acts V and VI of 1912 relating to Provident Insurance Societies and the Indian life insurance companies were based on English insurance companies Act of 1909.

The Indian Life Insurance Companies Act related to life insurance only and did not deal with the other forms of insurance, *i.e.*, fire, marine or other miscellaneous kinds of insurance, known as Accident Insurance business, which were covered under the English Insurance Companies Act of 1909. The reasons for confining the Indian Act to cover the life insurance business only were: (1) Few Indian concerns carried on business in the other branches. (2) The conditions of insurance in India did not call for any legislation pertaining to these branches.

The main object for excluding the general insurance business was to give foreign companies, which had practically a monopoly at that time on this class of business, complete freedom in their activities.

The Life Insurance Act of 1912 also had the following shortcomings:

(*i*) Absence of deposit from foreign companies.
(*ii*) Absence of substantial deposit from Indian companies which would prevent mushroom companies coming into existence.
(*iii*) Absence of restrictions on investments.
(*iv*) Exemption granted to foreign companies from sub-

mitting particulars of their Indian business.

(*v*) Absence of administration of the Act by a separate department.

(*vi*) Absence of power to the government actuary to order investigation into conduct of the company even if it was known to be unsound.

(*vii*) There was no stipulation as regards any working capital, and the new companies paid for the expenses of their business out of their premium thus preventing satisfactory growth of the companies.

(*viii*) Power was also granted to the Governor-General in Council to grant exemption to companies from the requirements of the act.

Two minor amendments were made in 1916 and in 1918 to the Life Insurance Companies Act.

A further enactment (Act XX of 1928) was made to collect statistical information regarding life and general insurance business in respect of the business carried on by non-Indian and Indian companies. It also dealt with the question of distribution of surplus assets in the event of liquidation of a life insurance company.

Due to representation by commercial bodies, the Government of India decided to undertake independent legislation instead of waiting for action to be taken by the British government on the Clauson Committee Report, which was presented to the British parliament in March 1927.

Sushil Chandra Sen, barrister, was appointed as officer on special duty to report on the law of insurance.

After examining various representations made by public bodies, individuals and local governments, notes made and information available in the then department of commerce and the office of the government actuary, Sen concluded:

1. that the new Act should govern all kinds of insurance except provident insurance which should continue to be governed by a separate Act, and
2. that the legislature should follow the principle of minimum interference and maximum publicity in framing the Act.

Sen submitted his report in November 1935. The official Bill was drafted by the then Law Member, Sir N.N. Sircar, who was helped by an advisory committee in which British and Indian interests were represented.

An Insurance bill was introduced in the legislative assembly in January 1937 and was referred to a select committee. The report of the select committee has the unenviable distinction of being probably the only report where a minute of dissent has been appended to by each member of the select committee.

The select committee, *inter alia*, recommended that: (1) all the funds should be invested in government securities, and (2) 10 per cent of the reinsurance in general business by foreign companies should be placed with Indian companies.

The suggestions stated above were dropped during discussions in the Assembly. The first on the ground that assets against life funds also include loans to policyholders, furniture, fixtures, outstanding premiums, etc. The second provision for compulsory reinsurance was objected to as savouring of discrimination against British companies.

The bill aroused considerable public interest. The Insurance Act of 1938 was a comprehensive piece of legislation even though it did not come to the expectation of the well wishers of the Insurance business.

The important provisions of the Act are briefly given below:

(*a*) Provision for the appointment of a Superintendent of Insurance with wider powers was made.

(*b*) To prevent the formation of mushroom insurance companies, provision was made in the Act to increase the deposits which the companies had to keep.

(*c*) General insurance companies also had to keep deposits.

(*d*) The Act provided a system for licencing insurance agents and also placed a limitation on the amount of commission payable to agents. It also prohibited the payment of rebates.

(*e*) All insurers operating in India had to obtain a certi-

insurance and had to comply with the requirements of the Act.

(f) All insurance companies had to file duly audited balance sheets, profit and loss accounts and revenue accounts with the superintendent of insurance.

In the case of foreign companies, in addition to the returns that they were submitting in their country of origin, they had to provide detailed statements in keeping with the Indian Act regarding their Indian business.

(g) The superintendent of insurance was also given a considerable voice in the matter of acceptance of actuarial valuations of assets and liabilities.

The superintendent of insurance, on his appointment, framed rules under the Act. The anomalies noted in the provisions of the Act were modified by two amending Acts in 1939. The Act was brought into force from July 1, 1939.

By the Insurance (Amendment) Act, 1950 (47 of 1950) limits were placed on the management expenses that can be incurred by insurers. These limits came into effect from December 31, 1949 in the case of general insurance and from December 31, 1950 in the case of life assurance.

The Insurance (Amendment) Act of 1950 also laid down provisions as to the capital structure and voting rights and the maintenance of registers of beneficial owners of shares. The companies were also to provide minutes of the proceedings of every general meeting as entered into the minutes book instead of an abstract of the proceedings of the general meeting. It was also provided that appointment of principal agents would come to an end after seven years. The Act created 'The Insurance Association of India', and provided for the establishment of a tariff committee.

Till the time of nationalisation the Insurance Act of 1938 was amended eleven times through amending Acts.

The Insurance Act of 1938 has undergone changes five times since nationalisation.

We will now briefly refer to the Life Insurance (Emergency Provisions) Ordinance (No. 1 of 1956) and the provisions of the LIC Act 1956 which followed.

The Life Insurance (Emergency Provisions Ordinance) was promulgated on January 19, 1956. The object was to take over the management of life insurance business, pending nationalisation of such business. The promulgation of the Ordinance was a well kept secret and came as a surprise to the management of erstwhile insurers, both Indian and foreign. This prevented the unscrupulous managements from manipulating the books of accounts and transferring investments or assets at that stage.

The Ordinance was replaced by the Parliament through the Life Insurance (Emergency Provisions) Act (Act 9 of 1956).

The preamble of the LIC Act (Act XXXI of 1256) is quoted below:

> An Act to provide for the nationalisation of life insurance business in India by transferring all such business to a Corporation established for the purpose and to provide for the regulation and control of the business of the Corporation and for matters connected therewith or incidental thereto.

The Life Insurance Corporation Act came into force on July 1, 1956 and on the 'appointed day', *i.e.*, September 1, 1956, Life Insurance Corporation came into existence.

Section 43 of the LIC Act is quoted below to indicate the extent of the application of the Insurance Act of 1938.

> Section 43
> (1) The following sections of the Insurance Act shall, so far as may be, apply to the Corporation as they apply to any other insurer, namely,
>
> > Sections 2, 2-B, 3, 18, 26, 33, 38, 39, 41, 45, 46, 47-A, 50, 51, 52, 110-A, 110-B, 110-C, 119, 121, 122 and 123.
>
> (2) The Central Government shall as soon as may be after the commencement of this Act, by notification in the Official Gazette direct that the following sections of the

Insurance Act shall apply to the Corporation subject to such conditions and modifications as may be specified in the notifications, namely:

> Sections 2-D, 10, 11, 13, 14, 15, 20, 21, 22, 23, 25, 27-A, 28-A, 35, 36, 40, 40-A, 40-B, 43, 44, 102, to 106, 107 to 110, 111, 113, 114 and 116A.

(2A) Section 42 of the Insurance Act shall have effect in relation to the issue to any individual of a licence to act as an agent for the purpose of soliciting or procuring life insurance business for the Corporation as if the reference to an officer authorised by the Controller in this behalf in Sub-section (1) thereof included a reference to an officer of the Corporation authorised by the Controller in this behalf.

> [This new Sub-section (2A) was inserted by Amendment Act No. 17 of 1957) (Section 3).]

(3) The Central Government may, by notification in the Official Gazette, direct that all or any of the provisions of the Insurance Act other than those specified in Sub-section (1) or Sub-section (2), shall apply to the Corporation subject to such conditions and modifications as may be specified in the notification.

(4) Every notification issued under Sub-section (2) or Sub-section (3) shall be laid for not less than thirty days before both Houses of Parliament as soon as possible after it is issued and shall be subject to such modifications as Parliament may make during the session in which it is so laid or the session immediately following.

(5) Save as provided in this Section, nothing contained in the Insurance Act shall apply to the Corporation.

Section 43 (2) was made applicable through Ministry of Finance G.S.R. 734, dated August 23, 1958 which contains the necessary alterations and modifications made by the Central Government. The main amended provision was made in section 27A of the Insurance Act relating to investments.

This was a sequel to the enquiry made by M.C. Chagla, Chief Justice of Bombay in respect of certain investments. The recommendation made are given in appendix 24.

The Finance Minister, C.D. Deshmukh made a statement in Parliament on August 25, while placing a copy of the notification pertaining to section 43 (2) of the LIC Act on the table of the House. He gave the reasons for modifying section 27A, which took into account all that has been said on the subject in the recent past (appendix 25).

The modified substituted section 27A of the Insurance Act of 1938 is quoted below:

> *Provisions regarding investments*
> "27A.(1) The Life Insurance Corporation of India shall invest, and at all times keep invested, twenty-five per cent of its controlled fund in Government securities and a further sum equal to not less than twenty-five per cent of the controlled fund in Government securities or other approved securities, and shall not invest, or keep invested, any part of the balance otherwise than in any of the following approved investments, namely:
>
> > (*a*) debentures or other securities for money issued with the permission of the State Government by any municipality in a State; (*b*) debentures secured by a first charge on any immovable property, plant or equipment of any company which has paid interest in full for the five years immediately preceding or for at least five out of the six or seven years immediately preceding on such or similar debentures issued by it; (*c*) debentures secured by a first charge on any immovable property, plant or equipment of any company where either the book value or the market value, whichever is less, of such property, plant or equipment is more than three times the value of such debentures; (*d*) cumulative preference shares of any company which has paid dividends on its equity shares for the five years immediately preceding or for at least five out of the six or seven years immediately preceding, provided

such preference shares have priority in payment over all the equity shares of the company in winding up; (*e*) cumulative preference shares of any company on which dividends have been paid for the five years immediately preceding or for at least five out of the six or seven years immediately preceding and which have priority in payment over all the equity shares of the company in winding up; *(f)* shares of any company which have been guaranteed by another company, such other company having paid dividends on its equity shares for the five years immediately preceding or for at least five out of the six or seven years immediately preceding: Provided that the total amount of shares of all the companies under guarantee by the guaranteeing company is not in excess of fifty per cent of the paid-up amount of preference and equity shares of the guaranteeing company; (*g*) shares of any company on which dividends of not less than four per cent including bonus have been paid for the five years immediately preceding or for at least five out of the seven years immediately preceding; (*h*) immovable property situated in India or in any other country where the Corporation is carrying on insurance business: Provided that the property is free of all encumbrances (*i*) first mortagages on immovable property situated in India or in any other country where the Corporation is carrying on insurance business. [Provided that the property mortgaged is not leasehold property with an outstanding term of less than thirty years and the amount of mortgage money does not exceed fifty per cent of the value of the property; *(j)* loans to any authority or any cooperative society registered under the Cooperative Societies Act, 1912, or under any other law for the time being in force operating a housing or building scheme in India in any case where the repayment of principal and interest is guaranteed by the Central or a State Government; (*k*) first mortgages on immovable property situated in India under any housing or building scheme of a

public limited company or a cooperative society registered under the Cooperative Societies Act, 1912, or under any other law for the time being in force: Provided that the amount of the loan does not exceed three-fourths of the value of the property; (*l*) loans on first mortgages of immovable property under any housing or building scheme of the Corporation for the benefit of the policyholders: Provided that the amount of the loan does not exceed three-fourths of the value of the property; (*m*) loans on life interests, or on policies of life insurance within their surrender values issued by the Corporation or by an insurer, the assets and liabilities of whose controlled business have been transferred to and vested in the Corporation or loans to employees of the Corporation for the purposes of purchasing or constructing houses or for the purpose of purchasing motor cycles, motor cars or any other conveyances in accordance with any scheme approved by the Corporation; (*n*) life interests; (*o*) deposits with banks included for the time being in the second schedule to the Reserve Bank of India Act, 1934, or with cooperative societies registered under the Cooperative Societies Act, 1912, or under any other law for the time being in force, the primary object of which is to finance other cooperative societies similarly registered; (*p*) debentures of, or shares in, cooperative societies registered under the Cooperative Societies Act, 1912, or under any other law for the time being in force; (*q*) such other investments as the Central Government may, by notification in the Official Gazette, declare to be approved investments for the purposes of this section.

(2) Notwithstanding anything contained in Sub-section (1), the Life Insurance Corporation of India may invest or keep invested any part of its controlled fund otherwise than in an approved investment, if after such investment the total amounts of all such investments do not exceed

fifteen per cent of the amount of its controlled fund:

> Provided that the investment is made after securing the unanimous recommendation of its Investment Committee or if no such recommendation can be obtained on a resolution of the Corporation passed by a majority of at least three-fourths of the members present at the meeting.

(3) The Corporation shall not, out of the controlled fund, invest or keep invested in the equity shares of any one company more than thirty per cent of the subscribed equity share capital of the company except with the prior permission of the Central Government:

> Provided that nothing in this Sub-section shall apply to any investment made by the Corporation in the equity shares of its subsidiary companies.

(4) Where an investment is in partly paid-up shares, the uncalled liability on such shares shall be added to the amount invested for the purpose of computing the percentage referred to in sub-section (3).
(5) Where new shares are issued to the existing shareholders by a company the existing shares of which are covered by clause (d) or clause (e) or clause (f) of Sub-section (1) and of which the Corporation is already a shareholder, the Corporation may subscribe to such new shares:

> Provided that the proportion of new shares subscribed by it does not exceed the proportion which the paid-up amount on the shares held by it immediately before such subscription bears to the total paid-up capital of the company at the time of such subscription.

(6) If, on application made by the Corporation, the Central Government is satisfied that special grounds exist warranting such exemption, the Central Government may

for such period, to such extent in relation to such particular investments and subject to such conditions as may be specified by it in this behalf, exempt the Corporation from all or any of the provisions of sub-section (3) and (5).

(7) The Corporation shall not out of the controlled fund invest or keep invested any sum in the shares or debentures of any private limited company except with the prior permission of the Central Government.

(8) The Central Government may, in the interests of the Corporation or its policy holders, require the Corporation not to invest its funds in any investment specified by it, or where it has any existing investment to realise them within a time to be specified.

(9) Without prejudice to the powers given to the Central Government by sub-section (8), nothing contained in this section shall be deemed to require the Corporation to realise any investment made in conformity with the provisions of sub-section (1) which after the making thereof has ceased to be an approved investment within the meaning of this section.

(10) Nothing contained in this section shall be deemed to affect in any way the manner in which any moneys relating to the provident fund of any employee or any security taken from any employee or other moneys of a like nature are required to be held by or under any Central Act, or Act of a State Legislature.

Explanation: In this section, 'controlled fund' means all the funds of the Corporation appertaining to its life insurance business, capital redemption insurance business and annuity certain business, but does not include any fund or portion thereof in respect of which the controller is satisfied that such fund or portion thereof, as the case may be, is regulated by the law of any country outside India or in respect of which the Controller is satisfied that it would not be in the interest of the Corporation to apply the provisions of this section.

Deshmukh specifically said that LIC is always to keep in mind the provision of section 6(1) of the LIC Act, which

enjoins on it the duty of carrying on its business to the best advantage of the community.

He also mentioned that it was obligatory on Government to apply various other sections, which deal with certain 'returns' and statement of accounts, which insurers have to submit to the controller of insurance so as to enable the latter to ensure that the interests of the policyholders are safe.

Changes made in other sections were also made, namely:

1. to conform to the financial accounting year instead of the calendar year;
2. Signing of returns by the Chairman, other Directors of LIC, auditors who made the audit or the actuary who made the valuation, as the case may be;
3. Deletion of sections inapplicable to LIC.
4. Changing the nomenclature of officials to conform to the nomenclature of the Chairman and Directors of LIC in some sections; and
5. Modifying the frequency of submission of return in the prescribed form showing all changes that occurred in the investments during each quarter of the year to half-year ending on the last day of March and September only instead of on the 1st day of March, June, September and December.

The law governing Life Insurance business in India can be said to be confined to the Life Insurance Corporation Act, 1956 along with specified sctions aud the modified sections of the Insurance Act of 1938 as has been made applicable to the LIC as per Section 43 of the LIC Act.

Provision has been made in sub-clauses (2) and (3) of Section 43 of the LIC Act for other sections of the Insurance Act to be made applicable with such modifications as the Central Government may wish to make.

The sub-clause (5) of clause 43 specifies that "Save as provided in this section, nothing contained in the Insurance Act shall apply to the Corporation".

The Insurance Act, in toto, however, continues to remain on the statute, even though many of its sections are now inoperative.

We will, now, briefly examine the nature of a public or statutory corporation, the justification entrusting the life insurance business to such a body and some of the provisions of the LIC Act of 1956 (Act XXXI of 1956).

EXAMINATION OF EXISTING INSURANCE ACTS

Public or statutory Corporation

A Statutory Corporation has a separate and independent existence and is a different entity from the Union or the State Government, with its own property and its own funds.

If the corporation makes losses and is unable to pay its debts, its property is liable to execution but it is not liable to be wound up at the suit of any creditor. The tax-payer would, no doubt, be cxpected to come to its rescue before creditors stepped in. Indeed, the tax-payer is the universal guarantor of the corporation.

Even when the Union or a State holds entire or majority shares of a corporation and controls its administration by policy directives or otherwise, and even if the Corporation imitates or adopts the fundamental rules to govern the service-conditions of its employees, yet in the eyes of the present day law, the statutory Corporation is its own master and is a separate entity. The employees also do not hold any 'civil postunder the Union or the State within the meaning of Article 311 of the Constitution.

The object and purpose of the Statute (LIC Act 1956) was the creation of a body autonomous in regard to its day-to-day-administration and free from ministerial control except as to broad lines of policy and, therefore, outside parliamentary surveillance, save perhaps in ragard to the directions given by the concerned minister under Section 21 of the said Act.

Sub-clause 11 of section 2, of the Insurance Act, 1938 defines 'life insurance business' as quoted below:

> Life insurance business means the business of effecting contracts of insurance upon human life, including any contract, whereby the payment of money is assured on death (except death by accident only) or the happening of any contingency dependent on human life, and any con-

tract which is subject to payment of premiums for a term dependent on human life and shall be deemed to include:

(*a*) the granting of disability and double or triple indemnity accident benefits, if so provided in the contract of insurance;
(*b*) the granting of annuities upon human life; and
(*c*) the granting of superannuation allowances and annuities payable out of any fund applicable solely to the relief and maintenance of persons engaged or who have been engaged in any particular profession, trade or employment or of the dependents of such persons.

It is interesting to note from explanation under sub-clause 3, section 2 of the LIC Act, 1956 that the expression "business appertaining to life insurance business" includes not only life business, but also: (*a*) capital redemption business, and (*b*) annuity certain business or both capital redemption or annuity certain business.

'Capital redemption business': It provides for the payment of a fixed sum of money at a certain future date. Premium may be a single payment or a periodic one. The distinguishing feature of this business is that neither the payment of the sum assured nor the premiums payable is, in any way, contingent upon human life. The object of such an insurance is to redeem debentures or debts of a similar nature at the end of a fixed term. Children's endowment policy is akin to this type of Insurance. In such a policy, it is stipulated that a fixed sum of money will be paid at a certain future date, *e.g.*, on the child's attaining a particular age. If the father of the child who takes out the policy dies, the guardian of the child can continue to pay the premium, and if the child dies, the policy can be shifted to any other child.

'Annuity certain business': In such business, the insurer agrees to pay a certain fixed sum as annuity by periodic payment either at the expiration of the specified period or earlier if death should occur to the assured.

The explanation first seeks to explain who can be said

to conduct no class of insurance business other than life insurance business and says that such would be an insurcr who in addition to life business carries on only capital redemption business or annuity certain business or both. The word 'only' shows that with the life business go the two named businesses but no other. An insurer who carries on life business and in addition only the one or the other of the two named business or both is to be regarded still as one carrying on "no business other than Life Insurance business".

LIC Act, 1956

We now draw attention to a few Sections of the LIC Act relating to finance, accounts, audit, actuarial valuations, annual report and how a surplus arrived at is to be distributed. These sections require modification to fit with the new strategy for universal insurance aimed at.

Section 6: Sub-section 2(a) of Section 6 of LIC Act, 1956 empowers the Corporation to:

(*i*) carry on capital redemption business,
(*ii*) annuity certain business, or
(*iii*) re-insurance business insofar as such reinsurance business appertains to life insurance business.

Section 21: The Corporation shall be guided by such directions in matters of policy involving public interest as the Central Government may give to it in writing; and if any question arises whether a direction relates to a matter of policy involving public interest, the decision of the Central Government thereon shall be final.

On December 30, 1957, the Central Government issued an order called "Life Insurance Corporation Field Officers (alteration of remuneration and other terms and conditions of service)".

This order presented a self-contained code dealing with material terms and conditions of service of officers who were first called 'field officers'.

In 1958, the Corporation framed its regulations in exercise of its powers under Section 49.

Section 24: The Corporation shall have its own fund and all receipts of the Corporation shall be credited thereto and all payments of the Corporation shall be made therefrom.

Section 25: (1) The accounts of the Corporation shall be audited by auditors duly qualified to act as auditors of companies under the law for the time being in force relating to companies, and the auditors shall be appointed by the Corporation with the previous approval of the Central Government and shall receive such remuneration from the Corporation as the Central Government may fix.

(2) Every auditor in the performance of his duties shall have at all reasonable times access to the books, accounts other documents of the Corporation.

(3) The auditors shall submit their report to the Corporation and shall also forward a copy of their report to the Central Government.

Section 26: The Corporation shall, once at least in every two years, cause an investigation to be made by actuaries into the financial condition of the Life Insurance business of the Corporation, including a valuation of the liabilities of the Corporation in respect thereto and submit the report of the actuaries to the Central Government.

Section 27: The Corporation shall, as soon as may be, after the end of each financial year, prepare and submit to the Central Government, in such form as may be prescribed, a report giving an account of its activities during the previous financial year, and the report shall also give an account of the activities, if any, which are likely to be undertaken by the Corporation in the next financial year.

Section 28: If as a result of any investigation undertaken by the Corporation under Section 26 any surplus emerges, ninety-five per cent of such surplus or such higher percentage thereof as the Central Government may approve shall be allocable to or reserved for the life insurance policyholders of the Corporation and after meeting the liabilities of the Corporation, if any, which may arise under Section 9, the remainder shall be paid to the Central Government or if that government so directs, be utilized for such purposes and in

such manner as that government may determine.

The original Section 28 which was replaced read as follows:

Section 28: If as a result of any investigation undertaken by the Corporation under section 26 any surplus emerges, *not less than 95 per cent of such surplus shall be allocated or reserved for the policyholders of the Corporation and the remainder may be utilised for such purposes and in such manner as the Central Government may determine.*

Section 28A: If for any financial year profits accrue from any business (other than Life Insurance business) carried on by the Corporation, then, after making provisions for *reserves and other matters for which provision is necessary or expedient, the balance of such profits shall be paid to the Central Government.*

The replaced current Section 28 was inserted by the Life Insurance Corporation (Amendment) Act, No. 33 of 1965, with effect from September, 29, 1965.

Section 29: The Central Government shall cause the report of the auditors under Section 25, the report of the actuaries under Section 26 and the report giving an account of the activities of the Corporation under Section 27 to be laid before both Houses of Parliament as soon as may be after each such report is received by the Central Government.

Section 37: The sums assured by all policies issued by the Corporation including any bonuses declared in respect thereof and, subject to the provisions contained in Section 14, the amounts assured by all policies issued by any insurer the liabilities under which have vested in Corporation under this Act, and all bonuses declared in respect thereof, whether before or after the appointed day, shall be guaranteed as to payment in cash by the Central Government.

Central Government initially provided Rs. seventy lakhs to LIC in respect of policies issued by some Insurers, so that action under Section 14 was obviated and the policyholders were saved from diminution of the face value of their policies. But for nationalisation and this contribution some more companies may have gone out of business, with consequential severe losses to their policyholders.

We have already referred in detail to Section 43, and indicated which sections of the Insurance Act have been mandatorily made applicable to LIC; also what other sections of the Insurance Act, with necessary modifications were made applicable through the Ministry of Finance G.S.R. 734, dated August 23, 1958.

Subject to above, the provisions of the Insurance Act, 1938 have not been made applicable to LIC.

Section 38: No provision of law relating to the winding-up of companies or corporations shall apply to the Corporation established under this Act, and the Corporation shall not be placed in liquidation save by order of the Central Government and in such manner as that government may direct.

The Corporation is perpetual. The winding up provisions of the Companies Act, 1956, as per Part VII thereof will not apply to it. The provisions contained in sections 53 to 61 of the Insurance Act, 1938, for winding up of insurance companies, also, will not apply. Only the Central Government can liquidate the Life Insurance Corporation; none else.

Section 44: Nothing contained in this Act shall apply in relation to: (*a*) any insurer whose business is being voluntarily wound up or is being wound up under the orders of the Court; (*b*) any insurer to whom the Insurance Act does not apply by reason of the provisions contained in section 2-E thereof; (*c*) any composite insurer in respect of the management of whose affairs an administrator has been appointed under Section 52A of the Insurance Act; (*d*) the scheme run by the Central Government known as the Post Office Life Insurance Fund; (*e*) any approved 'superannuation fund' as defined in clause (*a*) of Section 58(N) of the Indian Income-Tax Act, 1922, which is in existence on the appointed day; (*f*) any scheme in existence on the appointed day or *any scheme framed after the appointed day with the approval of the Central Government* whereby, in consideration of certain compulsory deductions made by government from the salaries of its employees as part of the conditions of service, the payment of money is assured by government on the death of the employee concerned or on the happening of any contingency dependent on his life.

Approved superannuated fund: (1) The expression means

a superannuation fund or any part of a superannuation fund which has been and continues to be approved by the commissioner in accordance with the rules contained in Part B of the Fourth Schedule of the Income Tax Act, 1961. Section 2 (6) of the Income Tax Act, 1961 refers.

(2) The Act does not apply to cases mentioned in clauses (a) to (f). The effect is that in these specified cases, the assets and liabilities of the business, even if they relate to the 'Controlled business' shall not be transferred to and vested in the Corporation, on the appointed day, as provided in Section 7 of the LIC Act[1].

Section 45: Notwithstanding anything contained in clause (c) of Section 44, the Central Government, may, by notification in the Official Gazette, direct that on and with effect from such date as may by specified in the notification the assets and liabilities appertaining to the controlled business of a composite insurer in respect of the management of whose affairs an administrator has been appointed under section 52-A of the Insurance Act shall be transferred to and vested in the Corporation, and on the issue of such a notification the provisions of this Act shall, so far as may be, apply in relation to such insurer and to the transfer and vesting of the assets and liabilities of his controlled business in the Corporation as they apply in relation to all other insurers and to the transfer and vesting of the assets and liabilities of their controlled business in the Corporation, subject to the modification that references in this Act to the appointed day shall be construed as references to the day specified in the notification. [Substituted by Act 17 of 1957 (Section 4) for the original Section 45].

Section 46: No act or proceeding of the Corporation or of any Committee of the Corporation shall be called in question on the ground merely of the existence of any vacancy or defect in the constitution of the Corporation or Committee, as the case may be.

Section 47: No suit, prosecution or other legal proceeding shall lie against any member or employee of the Cor-

[1]Insurance business is allowed to be carried on by the following States: (1) Andhra Pradesh, (2) Jammu & Kashmir, (3) Karnataka, (4) Kerala, (5) Madhya Pradesh, (6) Maharashtra, and (7) Rajasthan.

poration for anything which is in good faith done or intended to be done under this Act.

Section 48: (1) The Central Government may, by notification in the Official Gazette, make rules to carry out the purposes of this Act.

(2) In particular, and without prejudice to the generality of the foregoing power such rules may provide for all or any of the following matters, namely: (*a*) the term of office and the conditions of service of members; (*b*) the manner in which the moneys and other assets belonging to any such fund, as is referred to in section 8, shall be apportioned between the trustees of the fund and the Corporation; (*c*) the services which the chief agent should have rendered for the purpose of the provision to Section 12; (*d*) the jurisdiction of the Tribunals constituted under Section 17; (*e*) the manner in which, and the persons to whom, any compensation under this Act may be paid; (*f*) the time within which any matter which may be referred to a Tribunal for decision under this Act may be so referred; (*g*) the manner in which and the conditions subject to which investments may be made by the Corporation, (*h*) the manner in which Employees and Agents Relations Committee may be constituted for each zonal office; (*i*) the form in which the report giving an account of the activities of the Corporation shall be prepared; (*j*) the conditions subject to which the Corporation may appoint employees; (*k*) the fees payable under this Act and the man er in which they are to be collected; (*l*) any other matter which has to be or may be prescribed.

(3) All rules made under this section shall be laid for not less than thirty days before both Houses of Parliament as soon as possible after they are made, and shall be subject to such modification as Parliament may make during the session in which they are so laid or the session immediately following.

Section 49: (1) The Corporation may, with the previous approval of the Central Government, by notification in the Gazette of India, make regulations not inconsistent with this Act and the rules made thereunder to provide for all matters for which provision is expedient for the purpose of giving effect to the provisions of this Act.

(2) In particular, and without prejudice to the generality

of the foregoing powers, such regulations may provide for:

(*a*) the powers and functions of the Corporation which may be delegated to the Zonal Managers; (*b*) the method of recruitment of employees and agents of the Corporation and the terms and conditions of service of such employees or agents; (*bb*)[2] the terms and conditions of service of persons who have become employees of the Corporation under sub-section (1) of Section 11; (*c*) the number, term of office and conditions of service of members of Boards, constituted under section (22); (*d*) the territorial limits of each zone established under this Act and the business to be transacted in each zone; (*e*) the manner in which the Fund of Corporation shall be maintained; (*f*) the maintenance of separate funds and accounts at each of the zonal offices; (*g*) the jurisdiction of each divisional office and the establishment of Councils representative of policyholders in each area served by a divisional office for the purpose of advising the divisional office in respect of any matter which may be referred to it; (*h*) the conduct of business at meetings of the Corporation; (*i*) the formation of Committees of the Corporation and the delegation of powers and functions of the Corporation to such committees, and the conduct of business at meetings of such Committees; (*j*) *the form and manner in which policies may be issued and contracts binding on the Corporation may be executed*; (*k*) the classification of policies whether issued by the Corporation or by any insurer whose controlled business has been transferred to and vested in the Corporation, for the purpose of declaring differential bonuses, wherever necessary; (*l*) the manner in which and the intervals within which the accounts of the various zonal office, divisional offices and branch offices may be inspected and their accounts audited; and (*m*) the conditions subject to which any payment may be made by the Corporation.

[2]Clause (bb) in Sub-Section (2) of section 49 was inserted by Act XVII of 1957 with *retrospective effect*. The power to make regulations is contained in Sub-section (1). LIC (Staff) *Regulations*, 1956 was held *intra vires*.

The settlement entered into in respect of certain disputes as to dearness allowance, etc., for Class III and Class IV employess of the LIC on January 29, 1965, received the approval of the Central Government under Section 49 of the Life Insurance Corporation Act, 1956, and was published in the Gazette of India. The settlement was also incorporated in the existing Life Insurance Corporation of India (Staff Regulations) 1960.

Section 49(1) of the Life Insurance Corporation Act is an enabling Section whereby jurisdiction has been conferred upon the Corporation to make regulations with regard to the matters set out under Sub-section (2) thereof. There is nothing in the section which prevents, prohibits or restrains the rights of the employer and the employee to arrive at a settlement of an Industrial dispute. Even if such a settlement touches questions regarding conditions of service of the employees, the right to enter into such a settlement has by no means been curtailed or restricted by Section 49 (1) of the Life Insurance Corporation Act, 1956, when prior approval of the Central Government has been obtained.

SOME SUGGESTIONS

Insurable Interest

The life insurance contract presumes existence of insurable interest in the life insured. This distinguishes it from a wager policy which is not valid in law. The presumption of insurable interest is assumed in several types of cases such as follows:

1. Insurance by individual on own life,
2. Insurance by a wife on the life of her husband,
3. Insurance by a man on the life of his wife,
4. Miscellaneous insurance, particularly those relating to children for education, marriage, etc.

Other categories have been added to the above from time to time, such as:

1. Creditor on the life of his debtor,
2. Sureties on the life of the principal,

3. Trustees in respect of the legal rights or interest in the trust property vested in them,
4. Firms on the lives of key employees or representatives,
5. Business partner on the life of a key-partner,
6. Recent developments have included employer's interest in the employees through group insurance and group annuities and provident fund insurance, and
7. Insurer has sufficient interest to re-insure.

The LIC Act permits capital redemption business and annuity certain business to be conducted by LIC. In addition, it permits the LIC to carry on life insurance business whether in or outside India, in such a manner as to secure that the "Life insurance business is developed to the best advantage of the community".

We suggest one more category to be introduced under the insurable interest, namely:

8. The State has insurable interest in its citizens.

This would appear to be contained, implied and incipient in Article 38 of the Constitution under the Directive Principles of State Policy.[3]

Offer and Acceptance of Rebate

Section 41 of the Insurance Act which has been made applicable to LIC provides for prohibition of rebates.

Section 41 (i) No person shall allow or offer to allow either directly or indirectly, as an inducement to any person to (take out or renew or continue) an insurance in respect of any kind of risk relating to lives or property in India, *any rebate of the whole or part of the commission payable* or any rebate of the premium shown on the policy, nor shall any person taking out or renewing or continuing a policy accept rebate, except such rebate as may be allowed

[3]*Article 38*: The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life.

in accordance with the published prospectuses or tables of the insurer.

Provided that acceptance by an insurance agent of commission in connection with a policy of life insurance taken out by himself on his own life shall not be deemed to be acceptance of a rebate of premium within the meaning of this Sub-section if at the time of such acceptance the insurance agent satisfies the prescribed conditions establishing that he is a *bonafide* insurance agent employed by the insurer. This proviso was added by Section 27 of Act-13 of 1941.

The General Insurance Corporation of India and its subsidiaries have decided to introduce changes in the agency commission structure from January 1, 1977 as follows:

1. No commission will be paid in respect of insurance business pertaining to the corporate bodies with a paid-up capital of at least Rs. 10 lakhs and co-operative societies with a paid-up capital of at least Rs. 5 lakhs. *The saving in commission will be passed on to the insured by way of discount from the premium payable under the policy. No insurance agent will be entitled to get any commission in respect of such business.*
2. No commission will be paid in respect of insurance business of vehicles which are the subject matter of hire purchase finance and also business under the control of the banks. *Here also, "the saving in commission will be passed on to the insured by way of discount from the premium payable under the policy".* No insurance agent will be entitled to get any commission in respect of such business.[4]

It may be noted that the agents will not be given any credit for the business under the aforesaid categories, even if they claimed that they solicited and procured the aforesaid business.

To reduce the cost of Life Insurance, *i.e.*, a reduction in gross premium payable by life policyholders and thus to make life insurance more attractive, it would be advisable to

[4]*The Tribune*, December 31, 1976.

extend the benefit of reduced premiums to *direct insurers* upto a certain limit of sum assured, say to those proposers who do not get the benefit of income tax rebates on premiums paid at the time of insurance. If they come within the purview of the income tax at a later date these policies will not be affected but new additional policies will not get this benefit. For this purpose a provision in the proposal form and in the policy is to be made to find out whether one was liable for Income-tax. The premium receipt should also have a proviso that the premium paid is not entitled to income tax rebate. Similarly other policies should have a column that the premium paid is entitled to income tax rebate.

The limit suggested is, for policies upto twenty-five thousand rupees face value and premium rates of and less than Rs. 1200 per annum of the tabular rates within the above ceiling. The reduction of policy premium, suggested is 7½ per cent payable throughout the currency of the policy.

The limit suggested would include the largest number of assured who do not get the benefit of income tax rebate on premiums paid. This concession would encourage the policy-holders to keep the policies in force and reduce lapsing of policies, which would benefit the LIC and the assured alike and encourage a larger number of people to take out such policies.

Sub-section (2) of Section 41 of the Insurance Act provides as follows:

> Any person making default in complying with the provisions of this section shall be punishable with fine which may extend to five hundred rupees.

It is common knowledge that part of the commission receivable on life insurance premiums is offered as an inducement to proposers, *particularly of large denominations* and this practice is fairly widespread. It is understood that no conviction under this clause has taken place since it was introduced. The government also permits middlemen to sell goods at a lower rate than the prescribed price recommended on items of merchandise by sharing with the purchaser a part of their commission. On

this analogy it is desirable that the proviso under sub-section (2) of Section 41 be deleted so that all prospective policyholders may claim a reduction at least in their first year's premium pending implementation of the suggestion of 'Direct policies' made above.

Indisputability Clause

It has historical background.

The first known life policy issued and for which record is available was on the life of one William Gybbons of London which was issued on June 18, 1583 for a period of twelve months against death. The actual words were:

> . . .if it happens *the said William Gybbons to die or decease out of this present world by any ways* or means whatsoever before the full end of the said XII months be expired.[5]

William Gybbons died on May 29, 1584. The claim was, however, disputed on the grounds that the insured had survived twelve lunar months of twenty-eight days each. The court, however, ordered payment of the claim as it felt that the intent of the policy to insure the life was for one year.

This is the first known case taken to the court of law for settlement even though in the text of the policy it was declared to be "of as much force, strength, and effect as the best and the most surest policy—which hath ever been heretobefore caused to be made" and still it was disputed when the claim arose.

In the course of time the form and the content of the policy underwent changes. As discussed earlier, the statements made by the proposers in the proposal and before the medical examiner are incorporated in the body of the policy by reference and prescribing it as a condition as follows:

> *This assurance is conditional upon the questions contained in the proposal form the basis of the contract having been truly answered*, and if an untrue answer shall have been given to any such questions or if any material fact

[5]*Saga of Security*, LIC, 1970, Vakil & Sons. Bombay, p. 6-7.

> touching the health, habits and occupation of the assured has been suppressed or concealed from the knowledge of the Company, this assurance will be void.

Any misstatement unintentionally made in the proposal, even though it is not relevant to the condition of insurance, when found out on a subsequent date, can be interpreted as a breach of warranty and the insurance office could forfeit all premiums paid till that date.

This was a very hard condition and to mitigate the ill effects of such a condition an indisputability clause was usually incorporated as a condition of a policy. This read as follows:

> After this policy has been in force for two years and provided the age is admitted, it is indisputable with regard to statements made in the proposal except *on the grounds of frauds*.

The exception provided above pertaining to the admission of age was covered by another conditions which read as follows:

> Where the age of the assured has not been previously admitted, if it be found that the age has been understated, the policy will not on that account alone be voidable (except where the correct age would not have qualified for an assurance under the table in question, in which case the policy will be void), but the office shall only be liable for such sums as the premiums actually paid would have assured at the correct age under the said table. If the age has been over-stated the excess premium paid will be refundable.

The above is self-explained.

Some companies who could forfeit all the premiums paid where the policy is void, *ab initio*, however, usually made an offer to return the premiums after deducting the first year's premiums from such payment. This was done to win the confidence of the insuring public.

This problem was examined during discussions on the Insurance Bill and the consensus was included in Section 45 of the Insurance Act, 1938.

Provision was made by the Law makers under section 45 of the Insurance Act, 1938 so that a policy may not be called in question on the grounds of mis-statement after two years. This was further amended by the Insurance (Amendment) Act 1941,[6] to make it more precise and the intention clearer.

The relevant Section 45 of the Insurance Act, 1938 reads as follows:

> No policy of life insurance effected before the commencement of this Act shall after the expiry of two years from the date of commencement of this Act and no policy of life insurance effected after the coming into force of this Act shall, after the expiry of two years from the date on which it was effected, be called in question by an insurer on the ground that a statement made in the proposal for insurance or in any report of a medical officer, or friend of the insured, or in any other document leading to the issue of the policy, was inaccurate or false, unless the insurer shows that such statement was on a material matter or suppressed facts which it was material to disclose and that it was fraudulently made by the policyholder and that the policyholder *knew at the time of making it that the statement was false*[7] (or that it suppressed facts which it was material to disclose): [Provided that nothing in this section shall prevent the insurer from calling for proof of age at any time if he is entitled to do so, and no policy shall be deemed to be called in question merely because the terms of the policy are adjusted on subsequent proof that the age of the life insured was incorrectly stated in the proposal.]

It has been made applicable to LIC under section 43(1) of the LIC Act.

[6]Subs. by Act 13 of 1941, Sec. 31, for "was on a material matter and fraudulently made".

[7]Added by Sec. 31, Act 13 of 1941.

The LIC prescribes in the ultimate para of the preamble of a policy a declaration as follows:

> And it is hereby declared that this policy of Assurance shall be subject to the condition and privilege printed on the back hereof, and that the following schedule and every endorsement placed on the policy by the Corporation shall be deemed part of the policy.

When a contract is reduced to writing the terms of writing are usually considered to determine the mutual rights and obligation of the parties. The policy will be the normal evidence of the contract. There may be some other collateral conditions expressed in the prospectus, on the faith of which the contract is made. In case of dispute regarding the scope of interpretation of the policy conditions this has also to be taken into account. For instance, the minimum surrender value or the paid-up value guaranteed in the prospectus, subject to a minimum number of annual payments having been made shall be binding irrespective of any coditions that may ordinarily be specified in the policy. Similarly, if the rate of interest for loan is specified in the prospectus, it cannot be enhanced or revised by an insurer through unilateral action.

In the business of life insurance, the agent occupies an important position. He is ordinarily employed to solicit proposals on the terms and conditions in the prospectus from those who wish to effect insurance. Usually the agent is also authorised to collect the first premium which is remitted with the proposal.

When the agent fills in the proposal and other relative forms in his own hand writing on the basis of the information supplied to him and the proposer signs them, he acts more as an agent of the proposer than the life office and, therefore, the proposer himself is responsible for the replies given.

There is no separate mention of an 'indisputability clause' in LIC policy but it is covered under an omnibus clause which is printed on the back of a policy and reads as follows:

"*Forfeiture in certain events:* In case the premiums shall

not be duly paid as aforesaid or in case any condition herein contained or endorsed hereon shall be contravened, or in case it shall hereafter appear that any untrue or incorrect averment is contained in the proposal and declaration herein mentioned, or in the statements referred to therein, have not been truly and fairly stated or that any material information has been withheld, in every such case *subject to the provisions of Section 45 of the Insurance Act, 1938 wherever applicable*, this policy shall be void and all claims to any benefit in virtue hereof shall cease and determine, and all moneys that have been paid in consequence hereof shall belong to the Corporation, excepting always insofar as relief is provided in terms of the privileges herein contained or may be lawfully granted by the Corporation.

A comparison with the earlier clause quoted, it would appear that the indisputability clause in the LIC policy is of far-reaching consequences to a policyholder. Under this clause some claims of the policyholders have been refuted by LIC and all premiums forfeited. This has caused considerable annoyance to existing and prospective policyholders besides the claimants under such policies.

It will be seen that under section 45 the *insurer has to show* that the alleged, inaccurate or a false statement was on a material matter or a fact was suppressed which it was material to disclose and that it was fraudulently made by the policyholder and that the policyholder knew at the time of making it that the statement was false or that it suppressed facts which it was material to disclose.

It would, therefore, appear to be the intention of the lawmakers that the insurer (earlier a company) could not unilaterally disclaim its liability under a policy.

Every effort should be made by all parties to life insurance contract that a policy should become indisputable after a period of time, say two years, to provide peace of mind to the assured and confidence to his dependants.

The following points may be kept in view:

1. For a valid contract the intention of the proposer.

the contributions made to bring it to a close, *i.e.*, agent's reports, medical reports, friend's reports, etc., are equally important as the statements made by the proposer and the conditions, etc., prescribed in the policy which is the evidence of the contract.

2. The disputes generally arise because of an early death when the LIC is a substantial loser on the specific case.
3. The premiums are calculated and valuations made on the basis of specified mortality tables—whereas the mortality experience of the assured under LIC policies is substantially lighter and on an average has been around 50 per cent of the expected mortality (appendix 13).
4. The legal expenses incurred, besides the time consuming confidential inquiries take quite a slice out of the life insurance fund and taken together the cost some time exceeds the sum assured in dispute.

It is suggested that the LIC, *suo moto*, invariably take departmental action against the agent and other officers and the medical officer prior to any disowning of the claim under the policy.

It is proper that the LIC should first take to task its own employees and agents. It is exceptional, but true, that its agents and employees and likely beneficiaries of policy enter into conspiracy to cheat or defraud the LIC. All steps must, therefore, be taken to get rid of such persons who are privy to defrauding the LIC from the LIC organization.

The expenditure that it incurs in fighting out a claim and *forfeiting the premiums* create, *odium*, which adversely affects the purpose for which LIC was constituted.

It is, therefore, suggested that the dependants may be offered the following alternatives:

1. Reduction in the face value of the sum assured.
2. Refund of the premiums paid except that of the first year.

In either case, however, LIC should recover commissions

emoluments paid to the relevant agent and development officer. The above steps could with saving on legal expenses and the goodwill won on account of early settlement of claim is likely to tilt public opinion in its favour to enhance their confidence in the operations of the LIC, resulting in increased continuing business which would more than counter-balance any loss incurred due to disputing such a claim.

The above suggestion to settle the claim appears to be an improvement on the unilateral denouncement of a contract and forfeiting of premiums received and retaining them in the life fund.

Settlement of Disputed Policies

The assured also had relief under Section 47(A) of the Insurance Act quoted below:

> *Section 47(A)*: (1) In the event of any dispute relating to the settlement of a claim on a policy of life insurance assuring a sum not exceeding two thousand rupees (exclusive of any profit or bonus not being a guaranteed profit or bonus) issued by an insurer in respect of insurance business transacted in India, arising between a claimant under the policy and the insurer who issued the policy or has otherwise assumed liability in respect thereof, the dispute may at the option of the claimant be referred to the Controller for decision, and the Controller may, after giving an opportunity to the parties to be heard and after making such further inquiries as he may think fit, decide the matter.
>
> (2) The decision of the Controller under this sub-section shall be final and shall not be called in question in any court, and may be executed by the court which would have been competent to decide the dispute if it had not been referred to the Controller as if it were a decree passed by that court.
>
> (3) There shall be charged and collected in respect of the duties of the Controller under this section such fees, whether by way of percentage or otherwise, as may be prescribed.

At the option of the claimant a case could be referred to the Controller of insurance. The average policy issued by an Indian insurer in 1939 for business under-written in India was approximately Rs. 1410. Hence a large number of the policies were covered which could be referred to the Controller in case of dispute. The inclusion of this condition alone deterred many insurance companies from denying a claim and thus helped to make a settlement. The average size of a policy of LIC under individual insurance has been rising since its inception and is now slightly higher than Rs. 13,000. Policies issued for rupees 2,000 and below is only a small percentage of the total business.

To make Section 47(A) effective, which has been made applicable to LIC under Section 43(1) of the LIC Act, the Section 47(A) of the Insurance Act needs amendment. This would have been done earlier if the provisions of the Insurance Act were examined and this would certainly have happened if Insurance journals were flourishing and there was keen competition to secure business by different insurers. There is no doubt that this clause would have been amended to cover disputes in respect of policies of higher sums assured say Rs. 25,000 which would have covered substantially most cases of disputes of policyholders.

We have referred to this point in our concluding chapter.

Review of Insurance Act

The Insurance Act 1938 applies to all insurance business, *i.e.*, general insurance and life insurance business conducted in India. The life insurance business was nationalised in 1956 and the general insurance business has also since then been nationalised. We have already seen that a limited number of sections of the Insurance Act, 1938 have been made applicable to LIC through Section 43 of the LIC Act.

There are a considerable number of sections of the Insurance Act which do not apply to either the LIC or the General Insurance Corporation.

The Central Government has also given exemption to the Postal Life Insurance Fund, several other funds have been permitted exemptions under the Insurance Act of 1938, and to some of the state governments to conduct life insurance

business in respect of their employees. Thus, it would appear that a considerable number of sections of the insurance Act are not operative or applicable to the institutions which conduct life or general insurance business and may, therefore, be said, to be moribund as far as the above organizations are concerned. Several sections of the Insurance Act such as those relating to provident fund societies and mutual insurance companies and cooperative societies appear to be redundant now.

We suggest, therefore, that it is now opportune to review the whole Act.

It will also be advisable to specify sections which apply to LIC and, similarly, the sections that apply to GIC. This would avoid confusion.

Summary of Returns to be Published

Before closing we invite attention to Section 116(A) of the Insurance Act 1938 which is quoted below:

> 116(A): The Central Government shall every year cause to be published, in such manner as it may direct, a summary of the accounts, balance-sheets, statements, abstracts and other returns under this Act or purporting to be under this Act which have been furnished in pursuance of the provisions of this Act to the Controller during the year preceding the year of publication, and may append to such summary any note of the Controller or of the Central Government and any correspondence:
>
> > Provided that nothing in this section shall require the publication of the statement referred to in Sub-section (2) of Section 10 of the returns referred to in Sub-section (1) of Section 28 or Section 28A or Section 28B, or the statements referred to in Sub-section (2) of Section 31B or Section 40B.

The summary of returns have not been appearing regularly during the last few years. The latest available 58th issue of "Indian Insurance Year Book" published under section

116(A) pertains to the year 1972 and was published in 1975.[8]

Educationists, legislators and others do find the absence of regular and prompt publication of such vital documents a great handicap in their efforts to suggest ways and means to accelerate the growth of the welfare state.

Instead of delaying the publication for want of returns from all insurers it would appear to be advantageous if the names of defaulters could be published excluding their returns, so that the general public should know the state of business at least in respect of those insurers who have submitted their returns in time.

It is also suggested that the information pertaining to LIC should be published separately.

Unless there are insurmountable difficulties, information relating to postal life insurance fund and other funds which have been given exemption under the Insurance Act and, similarly, funds of other state governments which have also been given exemption under the Insurance Act, be included in such a publication so that the general public may be kept fully informed through a centralized channel of information.

[8]The report pertaining to the year 1973 has since been published.

7

On to Objective

The basic principle of life insurance, namely 'Cooperation', governs every stage in all walks of life. In the past, life insurance developed as it was considered to be a better proposition to create and safeguard tangible assets. Fluctuations in the value of the currency or money were marginal and as such financial assets created and measured in terms of money were stable and safe. Short comings in business surfaced from time to time, were slowly forgotten, in an atmosphere of complacency.

The history of insurance and its development till the present time, and its role in mobilising savings for collective social security and individual provision for security has been stressed.

Some of the erstwhile insurance companies in the past caused widespread miseries amongst the assured and their dependents, and their actions resulted in disturbance in different economic fields. To safeguard the savings and to prevent losses of the unwary or the ignorant due to the malpractices of unscrupulous businessmen, and to preserve the importance of life insurance business in the credit structure of our country the government took over the business.

At the time of taking over, the government assured the people that the business would be run *economically on sound business principles* in the interest of the policyholders and the growth of a welfare state. The Corporation was charged with the duty of functioning in a manner which would ensure that the life insurance business was developed to the best advantage of the country.

Business of erstwhile insurers was consolidated quickly and efficiently. Policyholders of erstwhile insurers have since

then enjoyed the respective conditions in their policies and have further benefited through steady and higher rates of bonus in respect of their policies.

LIC has, however, lost its initiative and zeal as vested interests spread surreptitiously amongst employees development officers, agents and others connected with its functioning directly or indirectly. Sporadic attempts to rectify the deficiencies did not succeed during the last two decades. Expenses increased, efficiencies lowered and service to policyholders deteriorated.

We recommend encouragement of group insurance business, direct business, annuity business along with the usual types of policies. The payment of 'extra' premiums for hazardous occupations, impaired lives, female lives, additional premiums payable for small policies and monthly premiums, are to come out of government's share of five per cent of valuation surplus or grant and subsidy from the Central or the State Government.

The suggestion of a compulsory 'second medical' examination within two or three years of the inception of the policy by a set of doctors other than the original examiners will encourage doctors to settle in rural areas and their practice will benefit the policyholder, the insurance corporation, the society and the state.

We have also brought out the need to revise rates of commission and to select rural agents from amongst social welfare workers in rural areas ex-service men, teachers and other functionaries of the region settled therein. The interfacing of banks with insurance offices will immensely benefit both bodies.

The operations of Self-liquidating Revolving Rural Development Fund can then be benefiting all areas, by stages, by creating assets and employment opportunities.

Specialised group insurance policies can be tailor made, if need be, subsidised, temporarily, to cover unemployed but potentially employable workers in rural and urban areas. The collection of premiums through nationalised banks on government account will facilitate channelising them for investments to create assets in a regulated manner for the integrated development according to unfolding circumstances.

Other suggestions such as issuing of policies as certificates, printing of policy conditions separately, ensuring that policies become 'indisputable' by the end of five years, issuance of policies in scheduled languages, settlement of disputed claims by regional tribunals, will popularise insurance business.

Opportunities to study 'insurance' in all its facets at universities, specialised institutes will provide expertise and open up avenues of employment eliminating dependence on foreign training.

The journals subsidised out of five per cent valuation surplus will have a special role to guide insurance development. This will bring the benefits of life insurance within reach of all at a lower cost and will provide a personal touch in solving the problems of the policyholders requring clarification. Decentralisation of work will simplify collection of premiums, sanctioning of loans and result in prompt settlement of claims, besides facilitate the steady flow of savings into specified channels.

For the healthy and resounding growth of life insurance business it is imperative that the *principles of utmost good faith* prevail in all business transactions and every aspect of its activities. The insurance business is a long term contractual obligation and an individual is in a comparatively disadvantageous position vis-a-vis the giant corporations. The beneficiaries generally come into the picture at a much later date and are not in a position to find out the true nature of the contract and whether the same is being interpreted fairly with utmost good faith.

With the nationalisation of life insurance business, the State has taken upon itself the responsibility to guarantee the payment of the sum assured and vested bonuses. There are many areas of activities in the field of insurance which demand that the Central Government and the States take energetic and effective interest in the operations of the life insurance business so that justice and equity are observed.

The State should protect the weak against the unjust action of the strong, even if it be an organisation created by the State itself. It should protect the interests of the policyholders, as life insurance deals with the savings of the policy-

holders. In this respect the State should ensure that the insuring organisations consider themselves as trustees of the wives, children and other dependents of policyholders.

The State corporations and other insurance departments are duty bound to reduce the rates of premium to attract the prospective policyholders, so that maximum insurance cover and adequate returns are assured. The returns should be commensurate with the returns on other forms of savings in the light of the basic structure of insurance business. The premium consists of : (*a*) decreasing term insurance; and (*b*) regular recurring deposits, which increases rapidly as in other forms of similar savings. Controlling expenses of management and rationalising the investments are crucial to achieve the end in view.

It has to be borne in mind all the time that the money which is spent or expenses incurred belong to the policyholders. Any expenditure which is avoidable or can be reduced, must be undertaken by the guardians that be.

It is understandable that because of its historical background persons in the existing set-ups of life insurance business and others who are benefiting directly in the investments and allied operations, have developed vested interests in the continuance of the LIC in the present form. All such interests oppose changes which persists the adverse effects on the savings and interests on the policyholders.

The growth of new business underwritten by erstwhile companies was considered to be a sign of progress and development of life insurance business and was given wide publicity. LIC appears to follow similar steps.

We feel that it is not only the growth of new business but other objectives which are relevant to assess progress in the present changing conditions:

1. Elimination of infructuous expenditure in securing life insurance business.
2. Efficient management of the life fund; elimination of write off's of bad debts, doubtful advances and investments (howsoever small the amounts may be) incurred directly or indirectly.
3. Studies to find out the causes for forfeiture and

lapses and elimination thereof.

4. Maintenance of the increasing insurance business at reduced/lower rates of expenses.
5. Simplification of policy conditions and the policy format.
6. Decentralisation to render better service to policy-holders.
7. Settlement of claims through transfer of assets like houses, flats, housing plots, farmland, etc., in newly created townships and developed rural areas.[1]
8. Extension of insurance operations to the rural and remote parts of the country and amongst working classes through group insurance-cum-savings schemes.
9. Annuities at specially attractive rates, when purchased with policy money.
10. Rapid spread of insurance knowledge through specialised institutes, universities and insurance journals.

It is imperative that the life insurance protection should be provided at low cost, thereby encouraging and safeguarding savings. This will make funds of individuals readily available for socially purposive investments. It will not only provide protection to the dependents in case of any untoward happening during working life but will also provide attractive returns during old age or at the end of one's own working life.

Shri C.D. Deshmukh, the Finance Minister stated during Lok Sabha debate on nationalisation of life insurance that "you may call it a Corporation, but it is still owned by the Government."[2] Hence, the Government in the final analysis is responsible not only for the actions of the LIC but also for the rapid spread and proper functioning of insurance.

We have referred to difficulties in finding out the expen-

[1]Attention is invited to articles in the *Illustrated Weekly of India* (5th to 11th July 1981 issue) Bombay. The points made are also applicable to other metropolitan cities in India.

[2]Lok Sabha Debates (9th May to 30th May 1956) Vol. V, Part II, col. 9079.

ses relating to the first year's premium of LIC which used to be available in respect of the erstwhile companies. We have also mentioned that it is not possible to find out the correct net return for any particular class or group of investments so as to determine their suitability for investments of the life fund. It has not been possible to determine the extent of infructuous expenditure—say in respect of settlement of maturity and death claims. It is felt that if the suggestions now made were introduced earlier, some expenditure in respect of the queries from the policyholders could have been avoided.

It is also likely that adequate information may not have been given about instances of serious irregularities including cases of waste, loss, financial mismanagement, infructuous expenditure, etc., in the accounts so that the parliament could have analysed them and suggested means to avoid them in future.

The definition and scope of 'insurable interest' be extended to include the insurable interest of the State on the lives of its citizens.

Life Insurance Protection during working period of Life and Annuities thereafter for all people are the two important factors in our concept of an egalitarian approach which has to be achieved to reach the goals set under the constitutional welfare State.

The Government of India has an onerous responsibility to take all necessary steps to expedite/achieve this objective. They should encourage the State Governments to share this responsibility. The future offers unlimited scope for development. The nature and scope of insurance has to be adjusted to the changing conditions, to protect savings, increase employment opportunities through creating potential social assets during working period of life and provide for pension or annuities after working period is over.

Few suggestions have been made to help the rapid spread of life insurance protection to all insurable lives, so that its benefits do not remain confined to those only *who are able to pay and to whom insurance is sold.* The creation of massive employment opportunities both in urban and rural areas and the planned objectives to raise standards of living, particularly of the poorer class, emphasise the urgent need to reorganise

the life insurance set-up. Developmental approach to insurance expansion immediately brings to mind the need for offices to be near the clientele and the need to take advantage of developed communication and computer techniques for better and prompter service and efficient management of records (including their protection against fire, damage, etc).

Banks, including rural banks, are making a determined effort to set up their branches in rural areas to be as near as possible to their clientele, Insurance is a service industry and each individual customer expects improved and personal service. Hence it should also open its offices to be near to its prospective clients, preferably by combining activities with banks

We reiterate that the annuity business or pension for old age and for dependents should be extensively encouraged by realistic favourable terms of interest by the State corporations. For calculating the annuity rates expectation of life tables to be used should not be older than 20 years and, as further studies become available, the expectation of life tables used should be based on studies not older than 10 years, to bring the calculations for annuities on a realistic mortality basis. The instalment of annuities should be free of income tax and super tax in the hands of the annuitants. This will help to mobilise resources for the development of the country and benefit the annuitant. The expenditure for operating such annuity business should be prescribed statutorily. Any excess expenditure is to be borne by the Central/State corporations preferably from five per cent of its share of valuation surplus and/or through grants or subsidy. The Central/State legislatures will then have periodical opportunities to examine the workings of the annuities scheme in the light of suggestions that other individuals and specialised agencies may also bring out as a result of analysis and studies.

The business of LIC including securing of proposals and issuance of policies is conducted through the medium of English language. An effort is now being made to introduce Hindi. Earlier, efforts were made to print information pamphlets, etc., in regional languages. For achieving the objectives stated at the time of nationalisation, it is necessary that the

regional languages should be used widely. The business of underwriting, maintenance and settlement of the claims of insurance business should be conducted through the major regional languages. It is of interest to note here that the Postal Life Insurance Fund issues policies which have both English and Hindi versions. The Rajasthan State Insurance Department also issues policies in Hindi. Encouragement to regional languages through issuance of policies will be a step in making insurance intelligible and thus acceptable in different areas.

Insurance journals in regional languages and special supplements of newspapers and periodicals can render immense service to individuals and corporations by publicising benefits of insurance available under different schemes. It will be desirable to set apart an insurance and savings week when not only the above but other medias of communications such as radio and television, debates and pamphlets can also be utilised for focusing the attention on insurance benefits and savings that an individual or group of people may avail of.

The Central Government should also ensure prompt publication of summaries of insurance returns. The onus has been clearly defined under clause 116A of the Insurance Act 1938. The present returns required to be published are in arrears for over five years and the last publication relates to the period ending March 1973.

Nationalisation was a challenge that the Government accepted and it is now for the Central/State Governments to uphold and justify the momentous decision. The emphasis on objectives should hereafter be changed from "insurance sold to those able to buy" to "insurance to all who need it", and no inducement in the shape of rebates of income tax and surcharge on income tax on premiums paid or rebates in commission, as at present, should be necessary.

The Act of nationalisation is of little consequence unless it covers the lives of all working/non-working people through development of policies suitable to indigenous requirements and the business is managed economically. The insuring public requires simplification of policy conditions, improvements in service during continuance of policies and settle-

ment of the claims expeditiously.

Special efforts through insurance journals and other-medias are necessary to propagate plans to transfer the savings of the individuals to the corporations for development of rural areas. This is necessary to reduce *poverty* and *inequality*. There must be a continuous search for programmes benefiting the poor and the weak, and a constant endeavour to improve upon the quality of implementation of such programmes.

A body corpus of sound business practices and simple policies economically administered so that the insurance benefits are accepted voluntarily and extended to all adults, even when one is not able to pay for the protection immediately, will ward off the ill-effects of 'Bura Din' (बुरा दिन) and usher 'Sukh and Sambridhi' (सुख व समृद्धि) when the working period is over.

To implement the above, legislation and fiscal adjustments will be necessary to effect an orderly change over in the set-ups to suit the social objectives of insurance and develop a sympathetic approach to cater to the needs and problems of prospective insurers.

We visualise that life insurance during working period of life and annuities and pensions during retired life are the two main planks towards development of 'healthy living' in a 'welfare state'.

The business of insurance is to be looked at as a concept of 'perpetual corpus'. It can best be studied in the background of past social concepts, changing conditions and aspirations of the people.

The demographic studies should be continuous to cover all aspects of adverse and favourable conditions which affect mortality experiences.

It will then identify conditions and fields where social scientists and medical scientists have to move in to suggest solutions for a healthy integrated growth of society in the country, to achieve a socio-economic State with reduced disparities in income, raising standards of living leading to stable economic growth and opportunities to develop individual potentialities. This will provide the maximum social protection to individuals.

One's own shelter, an income adequate to maintain freedom from want of necessities of life, ancillary concomitants and a standard of respectability which are immune to fluctuations in the values of money or escalation in prices sum up an objective which should be progressively brought within the reach of every individual, to enable him to continue to enjoy 'healthy living' at the end of his working period of life—as a *Fundamental Right*.

The interests of policyholders who contribute the entire funds of the insurance business on the cooperative principles of insurance have been kept in mind in examining the business of insurance. Hence suggestions have been made to eliminate vested interests, restrain their further subsequent growth and eliminate all superfluous trappings so as to achieve efficiency and low administration expense.

It is believed that this approach, modified to suit the unfolding social objectives aimed at, is in the interest of insurance business. It will infuse confidence in the insuring public and all those who serve and benefit directly and indirectly from the continuance of insurance business.

The task of the government will be to provide a legal framework through new *set-ups*. The law should rigidly deal with unethical practices of unscrupulous persons. This will eliminate charges of misappropriation or misapplication of the savings belonging particularly to the *weak* and the *poor*. The prospective proposers may otherwise refuse to put their savings in the custody of a Corporation to buy insurance.

The unfolding, evolutionary changes in the Indian social conditions provide a suitable background for dialogues, discussions and critical appreciation of the suggestions made.

It will result in developments with the impress of Indian traditions and solutions suitable to Indian conditions.

After the removal of shortcomings, setting up of State Insurance Corporations and simplification of the policies and procedures in administration, the Indian Life Insurance business, having been vitalised by nationalisation, shall grow vigorously, as long as the necessity for every prudent individual to make provision for himself in his old age and for his family dependents remains inescapable. With the realisation of millions of job opportunites leading to universal employ-

ment the Indian life insurance business will operate as a system of national insurance.

There is no end either to the business of life insurance or its story. Every day brings out the anguished inarticulated cry for provision against unforeseen accidental happenings man made disturbances and manipulated upheavals. The way to meet these challenges is through cooperation in all fields emphasising the interdependence of man.

The success of the experiment to provide insurance cover to all insurable persons will depend upon the dedicated hard work of trained personnel, impelled with the urge to render social service at a low cost through simplified administration permeated with the spirit of 'utmost good faith' (*uberrima fides*) at every stage of operations, thereby providing security for themselves and succour to the needy.

Men with vision, willing to dedicate themselves for the service of humanity were not rare in the past and they will be available in the future to uphold the ancient tradition of service to society so that each individual enjoys the protection of insurance cover, in rural or urban area, suitable to his needs, say by the end of next two decades.

Appendices

Appendix I

COPY OF THE BROADCAST OF FINANCE MINISTER ON JANUARY 19, 1956*

This afternoon the government have promulgated an ordinance regarding life insurance. All life insurance companies, Indian as well as foreign, doing business in India come under government management and control. This is the first and preparatory step towards the nationalisation of life insurance. It will be followed by the more elaborate action called for, and it is proposed to place before the next session of Parliament a Bill for the nationalisation of this important sector of insurance business.

Both in respect of the short period during which the management of the companies will vest in the government and in respect of the ultimate assumption of the proprietorial rights over them, reasonable compensation will be paid by the government. What is reasonable compensation is a matter on which there is room for difference of opinion; but I am confident that the basis adopted by the government will be generally ragarded as fair.

In the course of their observations on the organisation of the credit system of the country in connection with the first Five Year Plan the Planning Commission drew attention to the necessity of fitting increasingly into the scheme of development visualised for the economy as a whole the banking system—and, in fact, the whole mechanism of finance, including insurance, stock exchanges and other institutions connected with investment. For, it is only thus, they said, that the process of mobilising savings and utilising them to the best advantage becomes socially purposive.

MOBILISATION OF SAVINGS

Principally with a view to ensuring the spread of banking and credit facilities to the rural areas, the Imperial Bank of India was nationalised last year. The nationalisation of life insurance is a further step in the direction of more effective

**Hindustan Times*, January 20, 1956.

mobilisation of the peoples' savings. It is a truism which nevertheless cannot too often be repeated, that a nation's savings are the prime mover of its economic development. With a second plan in the offing involving an accelerated rate of investment and development, the widening and deepening of all possible channels of public savings has become more than ever necessary.

Of this process the nationalisations of insurance is a vital part. Let me give you a few figures. Today, some 50 lakhs of policies are in force paying annually a premium of Rs. 55 crores. The life insurance assets amount to roughly Rs. 380 crores from which the companies derive annually a net income of approximately Rs. 12 crores. The total insurance in force exceeds a thousand crores that is a little over Rs. 25 per head. Quite recently, it was claimed on behalf of private enterprize that the business in force could be increased to Rs. 8,000 crores and the per capita insurance to Rs. 200. I am in complete agreement. There can be no doubt as to the possibilities of life insurance in India and I mention these figures only to show how greatly we could increase our savings through insurance.

I need scarcely say that the decision to nationalise has been taken after deep and careful consideration of all relevant factors. I may indeed with justice claim also that we have done so with the certainty of the approval of the public and after full examination of the views expressed by the interests involved, for this matter has been the subject of public debate and discussion for several months past.

COMPANIES' OPPOSITION

On the one hand, there has been a very general demand for the nationalisation of the entire insurance industry. On the other hand, the chairmen of a large number of insurance companies, life, general and composite, have set out in extense all the arguments that could possibly be adduced against nationalisation and have endeavoured to show that insurance of every form can flourish best only under private enterprise and with the stimulus of competition.

It is obvious that in a short talk such as this, I cannot enter upon a discussion of these arguments and to explain

why they have failed to satisfy us and why we have, in spite of them, come to the conclusion that nationalisation of life insurance is essential for the implementation of our plan and, therefore, required in the public interest. Ample opportunity will, of course, be provided for such detailed discussion in Parliament.

I might, however, summarise the arguments that have been urged against nationalisation and comment briefly on them. State schemes in other countries and in India, it is said, have not been successful, that several foreign countries which went into the question fully decided against it, that a state enterprise cannot possibly function with the same flexibility and efficiency that the private enterprise can and finally that the state-run life insurance cannot achieve the highest ideals of insurance.

UNQUALIFIED SUCCESS

I do not understand this last point and will, therefore, not comment on it. To us, on an objective appraisal, it appears that the only conclusion that can be drawn from the experience of other countries is that wherever there has been a whole-hearted attempt by the state, nationalization has been an unqualified success, even in the face of severe competition from the private sector, and failures, wherever they occurred, have been due to the half-hearted manner in which the experiments were tried. There is no reason why a nationalised industry cannot be run efficiently. It is our intention to see that those who are entrusted with the running of nationalized insurance have the discretion and freedom of action necessary to enable them to secure maximum efficiency.

It has become almost axiomatic with some to maintain that state enterprise qua state enterprise must be inefficient. And yet, the fact is that far too much is claimed for the efficiency with which private enterprise is run. Thus, even in insurance, which is a type of business which ought never to fail if it is properly run, we find that during the last decade, as many as 25 life insurance companies went into liquidation and another 25 had so frittered away their resources that their business had to be transferred to other companies at a

loss to the policyholders.

Then again, though I do not wish unduly to emphasise this point, far too unhealthy an enterprize has been shown by a number of insurance companies in the investment of funds. Only recently, there was the case of Bharat Insurance Company when some Rs. 2 crores where misapplied and there have been several other cases. The amount of capital required for starting or running an insurance company is extremely small as compared to the total life fund that it may come to control. Once, however the control is secured, the tendency not infrequently has been to utilise the funds to meet the capital requirements of enterprises in which the managements are interested rather than those which are clearly in the interests of policyholders.

GENERAL INSURANCE BUSINESS

I would like also briefly to explain why we have decided not to bring the general insurance business into the public sector. The consideration which influenced us most is the basic fact that general insurance is part and parcel of the private sector of trade and industry and functions on a year to year basis. Errors of omission and commission in the conduct of its business do not directly affect the individual citizen. Life insurance business, by contract, directly concerns the individual citizens whose life savings so vitally needed for economic development, may be affected by any acts of folly or misfeasance on the part of those in control or be retarded by their lack of imaginative policy.

My object in speaking to you tonight is strictly limited. I thought it desirable that I should myself give you some idea, however, brief, of what we intend to do during this interim period and, in particular, to assure all those directly affected —the policyholders, the management and the staff, both office and field—that the companies concerned will be able to continue to work uninterruptedly.

The ordinance is designed to ensure that the existing managements of the insurance companies are able to carry on exactly as before until such time as a custodian is appointed to look after the affairs of each company. The only difference will be that the management will function as agents of the

government and that certain of its powers will be restricted. Thus, it cannot invest any of the funds of the company save in accordance with instructions given by the duly authorised officers of the government; likewise while the payment of all claims of policyholders can be made by the existing management under its own authority, it must seek the authority of the authorised person if the payment of a claim is not in accordance with the normal practice. In other words, it will be our object to see that there is little interference in the day-to-day management as is consistent with the attainment of our main objective, *viz.*, the safeguarding of the funds of the policyholders, and to the extent they have a claim, the interests of the shareholders. Naturally it will be our endeavour to put a stop to any malpractices that may come to our notice.

ASSURANCE TO POLICYHOLDERS

To the policyholders, I wish to give the assurance that their policies will be as safe as they are today, if not safer. Private insurers may fail, but the State cannot fail. To those intending to take our life policies, I would say that they should proceed with confidence in view of the proposed nationalisation and indeed step up their proposals for, on nationalisation, their policies will have the full backing of the government and acquire a new element of absolute safety.

To the staff at all levels, I would say that they have nothing to fear. I seek their loyalty and devoted work. I cannot, of course, guarantee the continuance of sinecures.

I should also like to reassure the spokesmen of the private sector, industrialists and others that it is not government's intention to divert the available funds to the public sector to greater degree than under present arrangements. Indeed, it will be my endeavour to see that at least as much money as is today made available for investment in the private sector continues to be so made available. If there is a change, therefore, it will be only to ensure that there are no privileged in the sense the priority, hereafter is made dependent upon the broad objectives assigned under the Plan to the private sector. The misuse of power, position and

privilege that, we have reason to believe, occurs under existing conditions is one of the most compelling reasons that have influenced us in deciding to nationalise life insurance.

To the members of the public, I would reiterate that step has been taken after long and mature consideration. I would appeal to them not to be led away by those who would oppose that step on purely dogmatic considerations, regarding state enterprise as invariably a failure and private enterprise as unerringly successful. We are determined to see that the gospel of insurance is spread as far and wide as possible and so that we reach out beyond the more advanced urban areas well into the hitherto neglected rural areas.

We have not been influenced by any doctricaire dislike of private enterprise in reaching our decision. Were that so, we would not have left alone the other big sector, the general insurance. Ours is a positive approach, I might even say in this case, a creative approach. We are convinced that out of the large number of individual units operating in life insurance, some good, some moderately good, a large number not so good, or even positively bad, we can wield together a dynamic and vigorous organisation, capable of taking insurance to every sector of people throughout the country and mobilising their savings while affording to them complete security together with efficient service.

The nationalisation of life insurance will be another milestone on the road the country has chosen in order to reach its goal of a socialistic pattern of society. In the implementation of the second Five Year Plan, it is bound to give material assistance. Into the lives of millions in the rural areas it will introduce a new sense of awareness of building for the future in the spirit of calm confidence which insurance alone can give. It is a measure conceived in a genuine spirit of service to the people. It will be for the people to respond, confound the doubters and make it a resounding success.

—C.D. Deshmukh

Appendix 2

CONSOLIDATED REVENUE ACCOUNT OF CONTROLLED BUSINESS FOR THE PERIOD FROM 1-1-1956 to 31-8-1956

(INCOME)

	Rs.	Rs.
Balance of Fund at the beginning of the period		3,610,047,983
Premiums, less re-insurances:		
First Year's Premiums	70,115,209	
Renewal Premiums	308,394,452	
Single Premiums	85,544	378,595,205
Consideration for Annuities granted, less re-insurances		1,788,359
Interest, Dividends and Rents (Net)		83,226,161
Registration and Other Fees		66,442
Sundry Receipts		1,323,520
Transfer from Shareholders'		328,622
Refund of Income-tax		9,827,575
	TOTAL	4,085,203,867

CONSOLIDATED REVENUE ACCOUNT OF CONTROLLED BUSINESS FOR THE PERIOD FROM 1-1-1956 to 31-8-1956

(OUTGO)

	Rs.	Rs.
Claims under Policies (including provision for claims due or intimated less re-insurances:		
By death	Rs. 38,075,868	
By maturity	Rs. 85,302,096	123,377,964
Annuities, less re-insurances		2,675,847
Surrenders, (including surrenders of Bonus) less re-insurances		24,691,586
Bonuses in Cash and in Reduction of Premiums less re-insurances		1,028,748

(Continued)

(*Continued*)

Expenses of Management:	Rs.
Commission to Insurance Agents (less that on re-insurances)	33,973,785
Allowances and Commission (other than commission to Insurance Agents)	8,700,943
Salaries, etc. (other than to Agents and those contained in above)	51,822,105
Travelling Expenses	3,662,748
Directors Fees	60,834
Auditors Fees	225,166
Medical Fees	3,815,937
Law Charges	439,207
Advertisements	604,713
Printing & Stationery	3,149,791
Postage, Telegrams & Receipts Stamps	3,072,165
Policy Stamps	637,657
Bank Charges	642,525
Charges, General	6,690,560
Company's contribution to Staff Pension & Provident Funds	3,334,803
Gratuities to employees	546,178
Depreciation on Furniture, Machinery, Motor Cars, etc.	1,783,932
Rents for Offices belonging to and occupied by the insurers	1,009,568
Rents of other Offices occupied by the Insurers	1,196,668
Exchange	28,633
Depreciation on Buildings	2,299,421
Bad Debts	837,541
Investments written off	2,291,274
Organisation Expenses written off	164,462
Transfer to General Reserve	1,217,403
Transfer to Investment Reserve	11,606,908
Dividends	732,375
Balance of Fund at the end of the period as shown in the Balance Sheet	3,788,882,415
TOTAL	4,085,203,867

Appendix 3

CONSOLIDATED BALANCE SHEET OF THE CONTROLLED BUSINESS AS ON 31ST AUGUST, 1956

ASSETS

		Rs.
Loans:		
On Mortgages of property		148,954,994
On the Insurer's policies within their Surrender Values		304,935,333
Unsecured Loans		7,100,000
Investments in Securities, Shares and Debentures		3,062,042,034
Deposit with the Govts. of Mysore & Kerala (formerly Travancore-Cochin)		71,620,405
Land & House Property		187,607,184
Agents' Balances		3,296,866
Outstanding Premiums		35,914,766
Interest, Dividends & Rents accrued and outstanding (Net)		50,371,114
Amounts due from other Persons or Bodies carrying on Insurance Business		5,930,070
Sundry Debtors		68,040,100
Cash in hand and at Banks		137,428,220
Furniture, Safes, Fittings, etc.		19,791,507
Other Assets		3,649,846
Security & other Deposits in Government Paper, etc.		2,103,401
Profit & Loss Account—Debit Balance		1,602,000*
	TOTAL	4,110,351,840

*The debit balance under the profit and loss account has been added to the values of other assets to arrive at the figure of total assets.

(Continued)

(Continued)

CONSOLIDATED BALANCE SHEET OF THE CONTROLLED BUSINESS AS ON 31ST AUGUST, 1956

LIABILITIES

	Rs.
Shareholders' Capital	16,452,111
Forfeited Shares Account	672,508
Share Premium Account	260,475
General Reserve	22,802,672
Reserve for Investments	55,195,632
Building Reserve Fund	9,116.649
Reserve for Bad and Doubtful Debts	6,840,437
Life Insurance Fund	3,788,882,415
Staff Gratuity & Welfare Fund	6,950,787
Debentures	45,863
Shareholders' Account	1,847,269
Estimated Liability in respect of Outstanding Claims	94,110,574
Premiums received in Advance	2,436,325
Premiums, etc., Deposits	40,219,179
Outstanding Dividends	1,227,480
Amounts due to other Persons or Bodies carrying on Insurance Business	8,509,180
Sundry Creditors	52,215,432
Security & Other Deposits	2,566,852
TOTAL	4,110,351,840

Appendix 4

BUSINESS OF LIC
INDIVIDUAL ASSURANCE—NEW BUSINESS (WITH PROPOSALS AND POLICIES) WITHIN INDIA AND OUTSIDE INDIA

Sr. No.	*Year*	*No. of proposals*	*Sum proposed (in crores of rupees)*	*No. of Policies issued*	*Sum assured (in crores of rupees)*
(1)	(2)	(3)	(4)	(5)	(6)
1.	1.9.1956 to 31.12.1957	11,34,633	400.47	9,41,654	336.67
2.	31.12.1957*	9,11,050	320.58	7,94,585	281.90
3.	31.12.1958*	10,55,318	385.92	9,35,845	343.07
4.	31.12.1959*	12,66,828	484.28	11,22,594	427.60
5.	31.12.1960*	14,24,327	568.40	12,57,557	497.54
6.	31.12.1961	16,99,594	702.93	14,69,664	608.82
7.	1.1.1962 to 31.3.1963	19,42,062	838.75	17,67,544	745.96
8.	31.3.1964	17,51,217	757.80	16,46,291	702.76
9.	31.3.1965	15,31,672	746.82	14,44,352	701.08
10.	31.3.1966	16,29,784	836.34	15,61,203	797.79
11.	31.3.1967	14,92,317	816.33	14,11,920	770.27
12.	31.3.1968	15.14,925	901.76	14,28,043	844.47
13.	31.3.1969	15,23,585	980.15	14,54,298	929.35
14.	31.3.1970	14,72,529	1,090.17	14,01,254	1,036.08
15.	31.3.1971	16,72,836	1,274.90	16,16,234	1,224.14
16.	31.3.1972	19,50,028	1,556.89	19,00,851	1,508.72
17.	31.3.1973	20,85,563	1,806.23	20,22,936	1,738.91
18.	31.3.1974	21,10,727	1,994.41	20,51,753	1,924.19
19.	31.3.1975	18,69,110	1,860.42	17,99,778	1,772.61
20.	31.3.1976	20,81,071	2,213.93	20,12,924	2,116.30
21.	31.3.1977	21,24,743	2,212.02	20,56,834	2,112.02
22.	31.3 1978	19,12,843	2,102.95	18,58,022	2,020.71
23.	31.3.1979	17,94,594	2,130.41	17,59,091	2,073.32
24.	31.3.1980	21,41,128	2,823.67	20,98,635	2,744.33

*Includes information regarding Janata proposals and policies, 2nd to 5th Annual Report and Accounts of LIC.

SOURCE: *1st to 23rd Annual Reports and Accounts of LIC.*

Appendix 5

GROUP INSURANCE SCHEMES—NEW BUSINESS PROGRESS

Sr. No.	*Year ending*	*Number of schemes*	*Number of new lives covered*	*Sum assured (in millions of rupees)*	*Annual premium receivable in millions of rupees)*
(1)	(2)	(3)	(4)	(5)	(6)
1.	31.3.70	46	62,414*	460.5	5.6
2.	31.3.71	69	70,732	789.4	13.6
3.	31.3.72	186	1,40,338	1,311.7	17.7
4.	31.3.73	367	5,97,553	3,362.9	15.0
5.	31.3.74	598	6,66,546	6,621.4	17.1
6.	31.3.75	758	9,40,991	13,398.2	26.6
7.	31.3.76	1,966	23,02,709	32,690.4	47.0
8.	31.3.77	1,045	6,60,780	30,072.1	29.6
9.	31.3.78	932	9,73,490	37,849.5	38.8
10.	31.3.79	897	11,21,679	11,974.1	—
11.	31.3.80	1,049	6,18,726	6,648.0	—

*This includes new lives covered under Superannuation Scheme also.

SOURCE: *18th to 23rd Annual Reports and Accounts of LIC.*

Appendix 6

CONTROLLED AND LIC BUSINESS IN FORCE (INCLUSIVE OF GROUP INSURANCE BUSINESS)

Sr. No.	*Year ending*	*Number of policies in '000*	*Sum assured including bonuses in millions of rupees)*
(1)	(2)	(3)	(4)
1.	1.9.1956 to 31.12.1957	5686	14,740.0
2.	31.12.1958	6234	16,820.0
3.	31.12.1959	6936	19,640.0
4.	31.12.1960	7713	22,850 0
5.	31.12.1961	8777	27,370.0
6.	1.1.1962 to 31.3.1963	9487	31,680.0
7.	31.3.1964	10328	35,710.0
8.	31.3.1965	10862	38,860.0
9.	31.3.1966	11589	43,940.0
10.	31.3.1967	12141	47,360.0
11.	31.3.1968	12759	52,400.0
12.	31.3.1969	13453	57,250.0
13.	31.3.1970	14041	64,250 0
14.	31.3.1971	14785	70,670.0
15.	31.3.1972	15799	82,020.0
16.	31.3.1973	16877	97,324.0
17.	31.3.1974	18024	116,031.8
18.	31.3.1975	18822	133,093.1
19.	31.3.1976	19681	168,691.1
20.	31.3.1977	20348	179.420.9
21.	31.3.1978	20774	201,902.2
22.	31.3.1979	21237	226,666.3
23.	31.3.1980	22102	253,800.0

SOURCE: *1st to 23rd Annual Reports and Accounts of LIC.*

Appendix 7

ANNUITIES AND PENSION

Sr. No.	Year ending	In India	Outside India	Total
(1)	(2)	(3)	(4)	(5)
		Rs.	Rs.	Rs.
1.	1.9.56 to 31.12.57	3,537,906	1,304,285	4,842,191
2.	31.12.58	2,840,160	320,051	3,160,211
3.	31.12.59	2,938,035	370,550	3,308,585
4.	31.12.60	3,368,193	438,486	3,806,679
5.	31.12.61	3,758,298	363,437	4,121,735
6.	1.1.62 to 31.3.63	3,369,010	475,117	3,844,127
7.	31.3.64	3,583,674	33,878	3,617,552
8.	31.3.65	4,440,775	2,313	4,443,088
9.	31.3.66	4,805,509	2,314	4.807,823
10.	31.3.67	5,952,870	3,172	5,956,042
11.	31.3.68	6,788,968	2,080	6,791,048
12.	31.3.69	7,963,468	34,286	7,997,754
13.	31.3.70	10,880,265	33,282	10,913,547
14.	31.3.71	11,141.377	47,492	11,188,869
15.	31.3.72	13,157,156	125,686	13,282,842
16.	31.3.73	14,272,509	148,638	14,921,147
17.	31.3.74	17,044,848	195,915	17,240,763
18.	31.3.75	20,474,056	249,451	20,723,507
19.	31.3.76	23,403,337	184,652	23,587,989
20.	31.3.77	26,083,181	501,983	26,585,164
21.	31.3.78	30,363,013	326,975	30,689,988
22.	31.3.79	35,628,879	330,112	35,958,991
23.	31.3.80	41,994,442	556,858	42,551,300

SOURCE: *1st to 23rd Annual Reports and Accounts of LIC.*

Appendix 8

NEW BUSINESS (INCLUSIVE OF GROUP INSURANCE) COMPLETED IN URBAN AND RURAL AREAS (IN INDIA)

		New Business in Urban Areas				New Business in Rural Areas			
Sr. No.	Year Ending	No. of Policies	Percentage to the total policies	Sum Assured in millions	Percentage to the total business	No. of Policies	Percentage to the total business	Sum assured in millions	Percentage to the total business
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
				Rs.				Rs.	
1.	31.12.61	9,28,032	63.5	416.20	69.5	5,33,576	36.5	182.59	30.5
2.	1.1.62 to 31.3.63	10,81,392	61.5	501.27	68.2	6,76,652	38.5	234.45	31.8
3.	31.3.64	10,52,573	64.3	483.10	69.8	5,85,143	35.7	209.40	30.2
4.	31.3.65	9,15,510	63.8	492.13	71.3	5,20,047	36.2	197.84	28.7
5.	31.3.66	9,97,166	64.1	568.58	72.0	5,57,535	35.9	220.62	28.0
6.	31.3.67	8,99,292	64.0	540.64	71.3	5,06,95	36.0	217.22	28.7
7.	31.3.68	9,13,709	64.2	599.82	71.8	5,09,607	35.8	235.46	28.2
8.	31.3.69	9,72,671	67.1	685.32	74.5	4,77,341	32.9	235.12	25.5
9.	31.3.70	9,35,063	67.0	773.92	75.5	4,61,468	33.0	251.76	24.5
10.	31.3.71	11,05,307	68.6	998.08	77.1	5,06,992	31.4	296.37	22.9

(Continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
11.	31.3.72	12,96,278	68.4	1,253.17	76.9	5,99,711	31.6	375.90	23.1
12.	31.3.73	13,74,707	68.1	1,620.62	78.6	6,43,284	31.9	441.45	21.4
13.	31.3.74	14,04,681	68.6	2,076.43	80.7	6,43,000	31.4	498.17	19.3
14.	31.3.75	12,24,339	68,2	2,636.34	85.0	5,72,000	31.8	464.27	15.0
15.	31.3.76	13,60,905	67.7	4,809 49	89.5	6,50,000	32.3	563.53	10.5
16.	31.3.77	13,67,857	66.6	4,527.17	88.7	6,86,000	33.4	575.34	11.3
17.	31.3.78	12,83,712	69.2	5,294.92	82.0	5,71,000	30.8	494.87	8.5
18.	31.3.79	12,41,179	70.7	2,793.43	85.8	5,15,000	29.3	461.88	14.2
19.	31.3.80	15,05,888	71.8	2,794.14	82.2	5,91,000	28.2	603.77	17.8

SOURCE: *5th to 23rd Annual Reports and Accounts of LIC.*

Appendix 9

SALARY SAVINGS SCHEME

Sr. No.	*Year ending*	*No. of policies*	*Sum assured in millions*
(1)	(2)	(3)	(4)
			Rs.
1.	1.9.56 to 31.12.57		
2.	31.12.58	52,738	139.3
3.	31.12.59	84,776	218.9
4.	31.12.60	1,03,849	272.0
5.	31.12.61	1,20,837	365.9
6.	1.1.62 to 31.3.63	1,93,199	610.3
7.	31.3.64	2,71,355	814.7
8.	31.3.65	2,22,445	768.6
9.	31.3.66	2,88,038	1,085.6
10.	31.3.67	2,05,629	1,211.9
11.	31.3.68	3,33,344	1,405.0
12.	31.3.69	3,73,718	1,649.6
13.	31.3.70	3,75,605	1,773.3
14.	31.3.71	4,86,113	2,520.6
15.	31.3.72	5,84,490	3,316.8*
16.	31.3.73	6,11,839	3,573.7
17.	31.3.74	6,39,000	4,071.1
18.	31.3.75	5,39,000	3,585.3
19.	31.3.76	5,91,000	3,946.1
20.	31.3.77	5,85,000	3,738.8
21.	31.3.78	5,67,000	4,237.3
22.	31.3.79	5,51,000	4,443.7
23.	31.3.80	6,44,000	5,853.1

*This figure has been shown as Rs. 314.13 crores in para 14 of the 16th report and accounts of LIC. This may be due to separation of Pakistan and Bangladesh business from the accounts.

SOURCE: *1st to 23rd Annual Reports and Accounts of LIC.*

Appendix 10

NEW BUSINESS: (I) INDIVIDUAL ASSURANCES & (II) UNDER NON-MEDICAL SCHEMES

Sr. No.	Year ending	Total Individual Assurances		Total New Business Under Non-medical (General) and (Special) Schemes			
		Number of policies	New business sum assured in millions of rupees	No. of policies	Percentage to total policies 5/3×100	Sum Assured in millions of Rupees	Percentage to total business 7/4×100
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	31.12.61	1,461,608	5,987.9	4,93,950	33.8	967.6	16.2
2.	1.1.62. to 31.3.63	1,758,046	7,347.2	7,12,524	40.5	1,556.7	21.2
3.	31.3.64	1,637,716	6,925.0	7,20,777	44.0	1,648.7	23.8
4.	31.3.65	1,435,557	6,899.7	5,89,723	41.1	1,445.9	21.0
5.	31.3.66	1,554,701	7,892.0	6,31,083	40.6	1,689.9	20.8
6.	31.3.67	1,405,987	7,578.6	6,31,531	44.9	1,761.5	23.2
7.	31.3.68	1,423,316	8,352.8	6,64,013	46.7	1,977.5	23.7
8.	31.3.69	1,450,012	9,204.4	6,63,847	45.8	2,079.6	22 6
9.	31.3.70	1,396,531	10,256.8	6,45,372	46.2	2,236.5	21.8
10.	31.3.71	1,612,299	12,944.5	8,24,842	51.2	3,240.3	25.0
11.	31.3.72	1,895,989	16,290.7	9,81,915	51.8	3,974.6	24.4

12.	31.3.73	2,017,991	20,620.7	9,98,243	49.5	4,296.4	20.8
13.	31.3.74	2,051,753	19,241.9	9,75,000	47.5	4,472.6	23.2
14.	31.3.75	1,799,778	17,726.1	8,42,000	46.7	3,750.0	21.1
15.	31.3.76	2,012,924	21,163.0	8,97,000	44.5	4,301.8	20.3
16.	31.3.77	2,056,834	21,120.2	9,16,000	44.5	4,228.6	20.0
17.	31.3.78	18,580,22	20,207.1	8,22,000	44.4	3,953.7	19.6
18.	31.3.79	17,590,91	20,733.2	7,17,000	44.8	3,581.4	17.3
19.	31.3.80	20,986,35	27,443.3	8,35,000	39.8	5,199.3	18.9

SOURCE: *1st to 23rd Annual Reports and Accounts of LIC.*

Appendix 11

GROUP INSURANCE POLICIES IN FORCE (NET)

Sr. No.	*Year ending*	*No. of policies*	*Sums assured per annum in millions of rupees*
(1)	(2)	(3)	(4)
1.	31.3.70	322	771.75
2.	31.3.71	316	1,192.75
3.	31.3.72	476	1,938.16
4.	31.3.73	814	4,071.35
5.	31.3.74	1,371	7,545.76
6.	31.3.75	2,062	14,570.69
7.	31.3.76	3,966	34,968.81
8.	31.3.77	4,914	34,437.23
9.	31.3.78	5,739	43,718.90
10.	31.3.79	6,504	58,010.50
11.	31.3.80	7,442	61,374.56

No Group Insurance business was transacted outside India since 1956 and no group insurance business remained in force.

SOURCE : (*a*) *Indian Insurance Year Books* (*till 1972*).

(*b*) *16th to 23rd Annual Reports and Accounts of LIC.*

Appendix 12

TABULAR STATEMENT OUTLINING SALIENT FEATURES OF VARIOUS MORTGAGE LOAN SCHEMES

Sr. No.	*Scheme*	*Amount of Loan* (a) *In relation to the value of the property*	(b) *Minimum loan*	(c) *Maximum loan*	*Term of the loan*	*Rate of interest*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Rs.	Rs.	Rs.		
1.	Scheme for grant of loans for financing Cooperative Housing Societies formed by the employees of the Corporation	1. 80% of the value of the property or 2. 5 years' substantive pay of each employee or 3. Maximum prescribed for	No specific amount	No specific limit. Varies with the property value and rank of employees	Not exceeding 30 years or upto the date of retirement or resignation of the individual member: Loan refundable to the extent of the	5% per annum with a rebate of 1% per annum for punctual payments of interest and/or instalments.

(*Continued*)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
		each category of the employee concerned			share allotted to him.	
2.	Scheme for grant of loans to individual employees of the Corporation for construction or purchase of houses	1. 75% of the value of the property or 2. 5 years substantive pay, or 3. maximum prescribed for the category of the emyloyee	6,000	Varies with property value and rank of employees	Before the date of retirement of the employee	6% per annum with a rebate of 1% per annum for punctual payments of interest and/instalment.
3.	Scheme for grant of loan on mortgage of immoveable property	To the maximum extent of 50% of the value of property as estimated by Corporation's Valuer.	25,000	5,00,000 (The upper limit may be relaxed suitably in deserving applications in respect of properties situated in Bombay, Calcutta, Delhi and Madras.)	Maximum 15 years	Minimum of 9% per annum; payable ½ yearly with a rebate of 1% per annum for punctual payments of instalment of interest and principal.

(Continued)

4.	"Own Your Home" Scheme.	Vary with the value of the property and the class of borrower.	(*a*) 10,000 for construction and purchase of the building. (*b*) 7,500 for extension of buildings.	1,00,000	(*a*) Upto retirement age for borrowers in service with approved employers. (*b*) 20 years in case of other borrowers or (*c*) Upto age 65 in any case.	8% per annum with a rebate of 1% per annum for punctual payments of premiums and instalment of interest or equated monthly instalments.
5.	Scheme for grant of Loans to Public Ltd. Companies for the purpose of Housing Schemes of their Employees.	Not to exceed 70% of the value of the property or Rs. 15,00,000 whichever is less.	5.00,000	Equal to the 2½ years' basic salary of employees to a maximum of Rs. 50,000 in respect of any one employee (total loan to one Company not to exceed 70% of the value of the property or Rs. 15 lakhs, whichever is lower).	Maximum 20 years	9% per annum with a rebate of 1% per annum for punctual payments of equated monthly instalments.

(*Continued*)

(1)	(2)	(3)	(4)	(5)	(6)	(7)
6.	Scheme for grant of loans to the Housing Co-operative Societies of Employees of Public Ltd. Companies for construction of houses.	Not to exceed 70% of the value of the property.	2,50,000	Equal to the 2½ years' basic salary of employees to a maximum of Rs. 50,000 in respect of any one employee with a maximum of Rs. 15,00,000.	Up to 15 years.	8% per annum with a rebate of 1% per annum for punctual payments of equated monthly instalments.

(Continued)

PARTICULARS OF MORTGAGE LOANS SANCTIONED UNDER THE VARIOUS MORTGAGE SCHEMES (LIC STAFF)

(In millions of rupees)

Sr. No.	Year ending	(LIC) Staff Societies Scheme		L.I.C. Individual Employees Scheme		Agent's Scheme	
		No. of applications sanctioned	*Amount*	*No. of applications sanctioned*	*Amount*	*No. of applications sanctioned*	*Amount*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			Rs.				
1.	31.3.69	8	5,304	145	2,223	—	—
2.	31.3.70	19	8,181	112	1,659	—	—
3.	31.3.71	11	6,545	142	2,285	—	—
4.	31.3.72	11	4,405	274	5,925	—	—
5.	31.3.73	15	13,122	628	17,601	—	—
6.	31.3.74	14	11,858	741	20,946	—	—
7.	31.3.75	17	27,438	1,026	34,407	4	17
8.	31.3.76	16	16,146	1,053	37,752	10	52
9.	31.3.77	4	4,420	671	25,101	6	.289
10.	31.3.78	6	5,714	516	20,335	9	.463
11.	31.3.79	8	6,091	723	29,510	12	.661
12.	31.3.80	2	2,614	792	36,487	13	.745

SOURCE: *12th to 23rd Annual Reports and Accounts of LIC.*

(Continued)

PARTICULAR OF MORTGAGE LOANS SANCTIONED UNDER THE VARIOUS MORTGAGE SCHEME (NON-LIC)

(*In millions of Rupees*)

Sr. No.	*Year*	*Property Mortgage Scheme*		*Own your home Scheme*		*Co-op. societies of employees of Public Ltd. Cos.*		*Township Scheme*		*OYA Scheme*	
		No. of applications sanctioned	*Amount*	*No. of applications sanctioned*	*Amount*	*No. of applications sanctioned*	*Amount*	*No. of applications sanctioned*	*Amount*	*No. of applications sanctioned*	*Amount*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
			Rs.		Rs.		Rs.		Rs.		Rs.
1.	31.3.69	169	6,800	853	22,770	2	2,026	—	—	—	—
2.	31.3.70	181	9,500	953	28,811	2	2.130	—	—	—	—
3.	31.3,71	349	18,682	1,202	37,162	2	5,500	—	—	—	—
4.	31.3.72	539	30,108	1,668	48,845	1	2,600	—	—	—	—
5.	31.3.73	444	25,911	1,735	51,840	1	1,500	4	3,869	—	—
6.	31.3.74	432	24,514	1,515	47,491	1	0,500	11	9,300	—	—
7.	31.3.75	623	36,743	1,978	60,044	—	—	20	7,146	10	0,190
8.	31.3.76	611	34,919	1,981	63,561	11	7,444	—	—	119	2,070
9.	31.3.77	550	32,726	1,626	52,832	8	4,193	4	1,691	96	1,903
10.	31.3.78	507	30,734	1,639	55,454	3	1,363	1*	477	72	1,451
11.	31.3.79	493	30,654	1,409	51,725	2	767	—	—	40	769
12.	31.3.80	509	34,024	1,642	63,531	1	487	—	—	11	226

*This one is for cooperative housing societies of other than approved employers.

SOURCE: *12th to 23rd Annual Report and Accounts of LIC.*

Appendix 13

MORTALITY EXPERIENCE ON THE BASIS OF MORTALITY TABLES USED IN VALUATIONS

Sr. No.	*Year ending*	*Mortality table used*	*Actual experience in percentage*	*Claims by death*		*Average death claim*	*Estimated saving on mortality account*
				Number	*Sum assured*		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			LIFE BUSINESS WRITTEN IN INDIA				
					Rs.	Rs.	Rs.
1.	31.12.57	Oriental (1925-35) Ultimate mortality	Less than 45*	—	—	—	—
2.	31.12.59	Modified Ori. (1925-35) Ultimate Mortality	48.8	23,253	6,06,10,000	2,607	6,35,90,820
3.	31.12.61	Modified Oriental (1925-35) and British offices $a^{(m)}$, $a^{(f)}$	More favourable than during biennium 1958-59	26,447	7,94,00,960	2,999	8,33,05,925
4.	31.3.63	-do-	Current experience same as 1961	35,901	10,93,11,718	2,962	11,46,87,704
5.	31.3.65	-do-	44	33,204	10,34,49,377	3,116	13,16,62,843
6.	31.3.67	-do-	43	37,219	12,76,13,907	3,429	16,91,62,621
7.	31.3.69	-do-	42	40,016	14,96,15,897	3,739	20,66,12,429

(Continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
8.	31.3.71	-do-	44	43,893	17,83,95,520	4,064	22,70,48,844
9.	31.3.73	-do-	44	50,425	23,26,35,469	4,613	29,60,81,506
10.	31.3.75	-do-	43	56.646	27,14,60,922	4,792	35,98,43,548
		Modified Oriental (1925-35) Ultimate and a(55)					
11.	31.3.77	-do-	42	61,910	33,48,46,992	5,409	46,24,07,751
12.	31.3.79	LIC (1970-73) Ultimate Mortality Table rated up by three years; a(55) ultimate mortality table.	39	1,20,789	74,17,40,486	6,141	1,16,01,39,297

Sr. No.	Year ending	Mortality table used	Actual experience in percentage	Claims by death: Number	Claims by death: Sum assured	Average death claims	Estimated saving on mortality account
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
		LIFE BUSINESS WRITTEN OUTSIDE INDIA					
1.	31.12 57	Oriental (1925-35) Ultimate Mortality	Less than 45*	—	—	—	—
2.	31.12.59	Modified Oriented 1925-35) Ultimate Mortality	48.8	1,210	51,72,000	4,274	54,26,361
3.	31.12.61	Modified Oriental (1925-35) Ultimate and British Offices a(^{m}), a(^{f})	More favourable than during biennium 1958-59	1,309	54,36,002	4,153	57,03,346
4.	31.3.63	-do-	Current experience same as 1961	1,590	6,368,235	4,005	66,81,427
5.	31.3.65	-do-	44	1,123	54,90,753	4,889	69,88,231
6.	31.3.67	-do-	43	721	55,92,137	7,756	74,12,833
7.	31,3.69	-do-	42	647	63,60,891	9,831	87,84,088
8.	31.3.71	-do-	44	508	48,18,159	9,485	61,32,202
9.	31.3.73	-do-	44	422	45,10,865	10,689	57,41,101
10.	51.3.75	Modified Oriental (1925-35) Ultimate and a(^{55})	43	353	43,73,468	12,389	57,97,388

(Continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
11.	31.3.77	-do-	42	268	36,98,182	13,799	51,07,013
12.	31.3.79	-do-	+	473	61,20,955	12,941	—

*(*a*) The actual experience has been assumed to be 45 per cent of those expected. This has been assumed on the basis of investigation made by the Indian Life Insurance Offices Association, which collected data covering theexperience of 34 insurers, which amongst themselves, accounted for 80 per cent of the total business. An investigation into this experience which relates to the year 1953-54 showed that during the period the actual deaths were about 45 per cent of those expected on the basis of the Oriental 1925-35 ultimate mortality table.

(*b*) It is noted in the first valuation report that "a comparison between the experience for the years 1953-54 on the one hand and that for the year 1957 on the other indicates a further improvement in mortality".

+There is no separate mention in valuation reports (1st to 11th) of the actual claims by death for life business: (1) Written in India and (2) Written Outside India. In the 12th Report separate percentages for death in U.K. business and Fiji business have been mentioned.

SOURCE : 1. *Indian Insurance Year Book* (1961).
2. 5th to 23rd *Annual Reports and Accounts of LIC.*
3. 1st to 12th *Valuation Reports of LIC.*

Appendix 14

RATES OF INTEREST ASSUMED IN VALUATION REPORTS, EARNED BY LIC AND ESTIMATED SURPLUS INTEREST EARNED

Sr. No.	*Year ending*	*Rates of interest assumed in valuation reports*	*Interest earned (Net)*	*Excess interest earned*	*Life fund at the end of the year*	*Estimated amount of excess interest earned on mean life fund**
(1)	(2)	(3)	(4)	(5)	(6)	(7)
					Rs.	Rs.
1.	1.1.56 to 31.8.56	3-1/8	3.75	0.63	3,788,900,000	23,870,070+
2.	1.9.56 to 31.12.57	3-1/8	3.74	0.62	4,104,100,000	32,298,156
3.	31.12.59	2-7/8	3.81	0.94	4,952,903,382	85,135,832
4.	31.12.61	2-7/8	4.14	1.27	6,315,919,387	143,114,049
5.	1.1.62 to 31.3.63	3	4.08	1.08	7,207,709,349	90,507,346
6.	31.3.65	3	4.51	1.51	9,016,148,238	244,874,550
7.	31.3.67	3-1/4	5.04	1.79	11,238,948,861	362,567,133
8.	31.3.69	3-1/4	5.24	1.99	14,344,652,792	509,114,688
9.	31.3.71	3-3/8	5.66	2.29	18,250,481,897	746,428,584
10.	31.3.73	3-3/8	5.82	2.45	23,586,859,732	1,025,014,870
11.	31.3.75	3-3/4	6.29	2.54	30,337,931,592	1,369,689,700
12.	31.3.77	3-7/8	6.78	2.91	39,528,812,793	2,033,122,262
13.	31.3.79	3-7/8	7.17	3.30	58,180,947,271	3,224,422,082

*Mean Life Fund estimated as mean of Life Fund at the end of previous valuation and at the end of current valuation.

+Estimates on the basis of Life Fund at the end of the year.

SOURCE: *1st to 12th Valuaticn Reports of LIC.*

Appendix 15

PROVISION FOR EXPENSES IN VALUATION REPORTS

Sr. No.	Year of valuation	*Participating Policies*: With profit policies percentage of office premium	*Participating Policies*: Limited payment and paid up with profit policies after cessation of premium per thousand sum assured per annum	*Non-Participating Policies*: Without profit percentage of office premium	*Non-Participating Policies*: Limited payment and paid up policies after cessation of premiums (per thousand sum assured per annum	*Higher Provision*: For with profit policies columns (3)—(5)	*Higher Provision*: Limited payment and paid-up with-profit policies per thousand sum assured columns (4)—(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			Rs.		Rs.		Rs.
1.	31.12.57	20.00	5	16	1	4	4
2.	31.12.59	20.00	7	15	2	5	5
3.	31.12.61	20.00	7	15	2	5	5
4.	1.1.62 to 31.12.63	(*i*) 22 and (*ii*) 20.5 for other participating policies	7	15	2	7 and 4.5	5
5.	31.3.65	22.00 20.50	7	15	2	(*i*) 7 (*ii*) 4.5	5
6.	31.3.67	22.00	8	16	3	6	5
7.	31.3.69	22.25	9	16	3	6.25	6
8.	31.3.71	23.00	10	17	4	6	6
9.	31.3.73	23.25	10	17	4	6.25	6
10.	31.3.75	26.50	14	19	7	7 50	7
11.	31.3.77	27.50	15	19 25	7	8.25	8
12.	31 3.79	30.00	18	19.25	7	10.75	11

SOURCE: *1st to 12th Valuation Reports of LIC.*

Appendix 16

OVERALL AND RENEWAL EXPENSE RATIO

(In percentage)

Sr. No.	*Year ending*	*Overall expense ratio*	*Renewal expense ratio*	
(1)	(2)	(3)	(4)	
1.	1.9.56 to 31.12.57	27.3	15.6	
2.	31.12.58	29.2	15.46	
3.	31.12.59	28.7	12.92	
4.	31.12.60	28.4	12.90	
5.	31 12.61	28.0	12.42	
6.	1.1.62 to 31.3.63	29.3	14.13	
7.	31.3.64	27.5	12.46	
8.	31.3.65	27.55	14.09	
9.	31.3.66	27.55	14.69	
10.	31.3.67	27.72	15.91	
11.	31.3.68	27.52	15.90	
12.	31.3.69	27.54	15.91	
13.	31.3.70	27.69	16.15	16.51*
14.	31.3.71	27.19	14.65	15.23*
15.	31.3.72	27.85	14.36	14.78*
16.	31.3.73	27.86	13.72	14.24*
17.	31.3.74	28.52	14.99	15.47*
18.	31.3.75	30.48	18.97	19.64+
19.	31.3.76	29.66	18.14	19.35+
20.	31.3.77	26.10	14.92	15.92+
21.	31.3.78	25.73	15.65	16.68+
22.	31.3.79	25.32	15.40	16.42+
23.	31.3.80	24.52	13.01	14.03+

*Adjusted for group insurance and group annuity business on which a lower portion for first year expense is assumed.

+Adjusted renewal expense ratio has been reworked on the basis of actual expense on group and superannuation business being allocated to G and S business.

SOURCE: *1st to 23rd Annual Reports and Accounts of LIC.*

Appendix 17

COMPARATIVE STATEMENT OF EXPECTATION OF LIFE

Age	*Oriental 1905-25*[1]	*1961 Mortality experience ultimate rates*[2]	*Mortality of Indian assured lives LIC (1961-64)*[3]	*Census of India*[1] *1911*	*1971*
(1)	(2)	(3)	(4)	(5)	(6)
20	37.157	50.92	52.57	27.46	40.2
21	36.428	49.96	51.62	26.92	39.4
22	35.700	49.01	50.67	26.39	38.5
23	34.974	48.05	49.72	25.87	37.6
24	34.249	47.10	48.77	25.36	36.7
25	33.525	46.14	47.82	24.86	35.9
26	32.801	45.19	46.87	24.37	35.1
27	32.077	44.23	45.92	23.88	34.3
28	31.350	43.28	44.96	23.39	33.5
29	30.622	42.32	44.01	22.92	32.7
30	29.892	41.37	43.05	22.45	31.9
31	29.159	40.42	42.10	21.98	31.1
32	28.425	39.47	41.14	21.52	30.4
33	27.689	38.52	40.19	21.06	29.6
34	26.953	37.57	39.24	20.61	28.9
35	26.216	36.63	38.29	20.16	28.2
40	22.579	31.61	33.61	18.01	24.7
45	19.114	27.41	29.05	15.97	21.4
50	15.947	23.05	24.70	13.97	18.3
55	13.138	18.95	20.63	11.99	15.6
60	10.855	15.19	16.88	10.00	13.0
65	8.879	11.85	13.54	8.06	11.0
70	7.153	8.96	10.64	6.19	9.4
75	5.601	6.58	8.20	4.50	7.8

[1]From *Indian Life Assurance Year Book 1927.*
[2]Taken from the *6th Annual Report and Accounts of LIC.*
[3]J.I.A Vol. 95—Part I article by Shri D.D. Markan.
[4]*Census Reports of India.*

Appendix 18

CLAIMS SETTLEMENT OPERATION

(In millions of Rupees)

Sr. No.	Year ending	Claims intimated during the year	Claims settled during the year	Claims written back	Claims outstanding	Old claims outstanding and unclaimed written back (net)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
		Rs.	Rs.	Rs.	Rs.	Rs.
1.	1.9.56 to 31.12.57	287.0	249.6	1.3	130.3	1,344,203
2.	31.12.58	250.5	242.5	4.4	133.9	4,410,391
3.	31.12.59	281.4	272.8	2.1	140.4	2,133,946
4.	31.12.60	306.9	305.9	6.8	134.7	6,791,646
5.	31.12.61	341.1	325.7	10.8	139.3	10,793,560
6.	1.1.62 to 31.3.63	439.6	438.2	5.1	135.5	5,119,741
7.	31.3.64	446.6	429.5	3.5	149.1	3,511,750
8.	31.3.65	528.2	502.6	4.3	170.4	4,250,570
9.	31.3.66	585.7	577.2	4.8	174.1	4,839,046
10.	31.3.67	633.9	609.4	5.3	193.3	5,300,947
11.	31.3.68	629 3	605.2	3.5	213.9	3,504,141
12.	31.3.69	696.2	662.6	5.4	242.1	5,373,141
13.	31.3.70	814.4	802.9	10.7	242.9	10,712,312
14.	31.3.71	871.0	893.7	14.9	205.3	14,883,191
15.	31.3.72	919.2	920.9	25.5	178.1	25,460,791
16.	31.3.73	1034.4	988.7	7.2	212.6	7,182,237
17.	31.3.74	1146.7	1067.3	6.3	285.7	6,260,307
18.	31.3.75	1483.2	1437.5	14.2	317.2	14,184,215
19.	31.3.76	1627.3	1642.0	16.5	286.0	16,539,713
20.	31.3.77	1736.6	1760.8	16.3	245.5	16,333,937
21.	31.3.78	2069.7	2002.6	7.7	312.6	7,747,460
22.	31.3.79	2378.9	2329.2	3.8	362.3	3,770,018
23.	31.3.80	2830 0	2708.8	17·9	483.5	17,889,656

NOTE : 1. The first reference to amount written back is to be found in the 12th Report for the year ending 31.3.69.

2. The information in column 7 is taken from the revenue accounts.

3. From the 19th report to 23rd report gross old claims written back for the year and the amount paid during the year have been given separately in the revenue accounts. We have taken only the net figure in column 7 to maintain comparability.

SOURCE : *1st to 23rd Annual Reports and Accounts of LIC.*

Appendix

ANALYSIS OF OUTSTANDING

Sr. No.	Year ending	Less than 3 months		More than 3 months but less than 6 months		More than 6 months but less than 1 year	
		Number	Amount	Number	Amount	Number	Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			Rs.		Rs.		Rs.
1.	31.3.74	28611	60,467,838	14647	23,973,042	9107	13,132,743
2.	31.2.75	31368	68,834,557	15863	34,356,535	9270	15,942,086
3.	31.3.76	21544	45,446,727	12636	26,382,529	7461	14,340,942
4.	31.3.77	16297	36,811,195	8923	17,189,957	4957	10,673 804
5.	31.3.78	29990	73,454,092	13869	26,987,027	7119	13,557,127
6.	31.3.79	32427	67,771,870	17207	30,024,517	11779	19,535,877
7.	31.3.80	38370	103,405,561	21837	50,614,906	11247	24,144,183

SOURCE: *17th to 23rd Annual Reports and Accounts of LIC.*

ANALYSIS OF OUTSTANDING

Sr. No.	Year ending	Less than 3 months		More than 3 months but less than 6 months		More than 6 months but less than 1 year	
		Number	Amount	Number	Amount	Number	Amount
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			Rs.		Rs.		Rs.
1.	31.3.74	12542	61,724,322	5008	26,197,746	5998	30,465,685
2.	31.3.75	10949	57,807,067	5362	26,655,042	6080	31,724.828
3.	31.3.76	11835	65,458,005	4958	27.680,221	5762	32,906,110
4.	31.3.77	10113	64,603,844	4269	28,872,352	4628	29,973,997
5.	31.3.78	11280	77,455,035	4104	29,297,764	4281	29,565,921
6.	31.3.79	11598	83,247,333	4622	33,762,267	5067	39,201.539
7.	31.3.80	12705	105,685,316	5247	42,459,937	5936	43,565,460

SOURCE: *17th to 23rd Annual Reports and Accounts of LIC.*

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CLAIMS (MATURITY CLAIMS)

More than 1 year but less than 2 yrs.		*More than 2 yrs.*		*Total*	
Number	*Amount*	*Number*	*Amount*	*Number*	*Amount*
(9)	(10)	(11)	(12)	(13)	(14)
	Rs.		Rs.		Rs.
7463	12,362.961	5061	9,124.994	64889	119,061,578
9031	15,086,937	6081	10,664,347	71613	144,884,462
7381	16,633,619	4342	8,911,207	53364	111,715,024
3105	8,545,377	2578	8,446,047	35860	81,666,380
3952	9,291,632	2328	8,424,835	57258	131,714,713
8256	19,233,267	4193	12,023,105	73862	148,588,636
11518	25,946,627	5120	13,512,714	88092	217,623,991

CLAIMS (DEATH CLAIMS)

More than 1 yr. but less than 2 yrs.		*More than 2 yrs.*		*Total*	
Number	*Amount*	*Number*	*Amount*	*Number*	*Amount*
(9)	(10)	(11)	(12)	(13)	(14)
	Rs.		Rs.		Rs.
5989	31,362,107	3695	11,613,980	33222	166,663,841
5381	31,473,055	4478	24,660,839	32250	172.320,831
4713	29,061,084	2970	19,182,493	30238	174,287,913
3928	26,400,300	2051	13.982,835	24989	163,833,328
3510	27,765,225	2439	16,766,483	25614	180,850,428
4692	35,548,190	3265	23,916.993	29244	213,676,322
5003	41,201,207	3545	27,996,370	32436	265,908,290

Appendix 20

NEW BUSINESS UNDERWRITTEN BY LIC (BY NUMBER) NUMBER OF POLICIES THAT GO OUT OF THE BOOK, WITHOUT RUNNING THEIR NORMAL COURSE BY MATURITY OR CLAIMS

Sr. No.	*Year ending*	*Proposals not materialized*	*Policies that were not taken up*	*Policies* *Forfeited*	*Lapsed*[1]	*Policies surrendered*	*By change & decrease*	*Total col. (3) to col. (8)*	*New business written on Individual lives*	*Percentage of col. 9 to col. 10*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
		Number	*Number*	*Number*	*Number*	*Number*	*Number*	*Number*	*Number*	%
1.	1.9.56 to 31.12.57	115,407	—	—	—	—	—	—	932,331	—
2.	31.12.58	118,419	3,029	297,770	—	29,217	50,863	499,298	930,446	53.7
3.	31.12.59	142,955	932	370,588	—	24,825	11,874	551,174	1,114,682	49.4
4.	31.12.60	164,612	999	434,209	—	30,747	8,165	638,732	1,225,902	52.1
5.	31.12.61	228,224	672	546,111	—	29,383	14,555	818 945	1,461,608	56.0
6.	1.1.62 to 31.3.63	172,054	1,192	708,346	—	58,818	295,184	1,235,594	1,758,046	70.3
7.	31.3.64	102,784	1,628	660,130	—	53,991	14,575	833,108	1,637,759	50.9
8.	31.3.65	85,833	1,137	675,898	—	70,102	115,122	948,092	1,435,601	66.0
9.	31.3.66	67,431	1,153	672,870	—	57,753	29,160	828,367	1,545,758	53.6

10.	31.3.67	79,544	1,407	674,659	—	67,733	70,977	894,320	1,406,033	63.6
11.	31.3.68	86,435	1,279	540,578	—	71,883	63,477	763,652	1,423,380	53.7
12.	31.3.69	68,783	1,753	526,829	—	81,901	39,964	719,230	1,450,095	49.6
13.	31.3.70	70,715	1,869	508,214	—	96,487	55,067	732,352	1'396,547	52.4
14.	31.3.71	56,011	1,902	453,828	—	108,730	142,782	763,253	1,612,289	47.3
15.	31.3.72	58 688	1,978	462,754	—	127,983	175,407	826,810	1,895,875	43.6
16.	31.3.73	62.051	2,764	536,411	—	154.940	66,522	822,688	2,017,703	40.8
17.	31.3.74	58.398	3.306	559,326	—	135,124	38,194	794,348	2,047,136	38.8
18.	31.3.75	68,830	3,530	589,057	—	162,256	20,355	844,028	1,795,590	47.0
19.	31.3.76	67,308	4,056	625,705	—	237,547	35,525	970,141	2,008,939	48.3
20.	31.3.77	67,345	4,509	764,670	—	341,175	66,913	1,244,612	2,052,833	60.6
21.	31.3.78	54,243	3,439	786,519	—	305,692	42,094	1,191,987	1,853,780	64.3
22.	31.3.79	34,878	2,804	699,327	—	250,348	40,519	1,027,876	1,755,282	58.6
23.	31.3 80	42,091	3,152	616,386	—	240,494	30,695	932,818	2,095,839	44.5

[1]Number of lapsed policies are not shown separately. Only sum assured is shown separately since 31.3.73 and onwards (16th Report to 20th Report).

Lapsed policies are paid-up policies. The number is not shown separately as they continue to remain in the books of business.

SOURCE: *1st to 23rd Annual Reports & Accounts of LIC.*

Appendix

PROPOSALS AND POLICIES

Sr. No.	*Year ending*	*Proposals for sum assured not material-ised (in millions)*	*Policies being not taken-up*	*Forfeiture*	*Lapse*
(1)	(2)	(3)	(4)	(5)	(6)
		Rs.	Rs.	Rs.	Rs.
1.	1.9.56 to 31.12.57	372.9	—	—	
2.	31.12.58	413.6	9,839,000	1,037,612.000	—*
3.	31.12.59	553.9	5.360.000	1,370,909,000	—*
4.	31.12.60	687.2	6.000.000	1,624,770.000	—*
5.	31.12.61	920.6	5,458,250	2,132,668,257	—*
6.	1.1.62 to 31.3.63	899.8	9,802,008	3,296,905,997	—*
7.	31.3.64	527.7	10.453,655	3,095,834,353	—*
8.	31.3.65	438.2	8,877,706	3,320,599,829	—*
9.	31.3.66	369.7	9,943,287	3,600,063,336	—*
10.	31.3.67	442.0	12,905,233	4,034,651,466	—*
11.	31.3.68	563.6	12,682,752	4,125,816,510	—*
12.	31.3.69	497.6	16,518,601	4,237,971,219	—*
13.	31.3.70	527.5	26,616,563	4,426,677,307	—*
14.	31.3.71	496.2	23,885,970	4,518,312,238	—*
15.	31.3.72	471.1	37,373,500	4,992,829.150	—*
16.	31.3.73	657.4	49,598,275	3,682,723,939	—*
17.	31.3.74	689.2	61,040,166	4,148,282,310	2,179,318,125
18.	31.3.75	864.1	69,674,250	4,782,089,388	2,394,568,906
19.	31.3.76	950.9	76,176,800	5,528,048,577	3,096,924,197
20.	31.3.77	969.6	87,576,650	6,932,738,100	3,240,854,515
21.	31.3.78	801.5	71.728,250	10,305,969,498	2,795,180,706
22.	31.2.79	538.8	58,042,150	9,729,463,327	—+
23.	31.3.80	775.9	68,920,000	9,473,110,122	—+

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WHICH GO OUT OF THE BOOK

Policies Surrendered	*By Change & Decrease*	*Total col. 3 to col. 8*	*New Business written on individual lives (in millions) secured in India*	*Percentage col. 9 to col. 10*
(7)	(8)	(9)	(10)	(11)
Rs.	Rs.	Rs.	Rs.	
—	—	—	3,280.8	—
50,701,000	318,835,000	1,830,587,000	3,374.5	54.2
38,148,000	226,198,000	2,194,515,000	4,176.9	52.5
56,005,000	211,115,000	2,585,090,000	4,860.2	53.2
49,704,695	248,185,100	3,356,616,302	5,987,9	56.1
109,225,105	903,829,373	5,219,562,483	7,347.2	71.0
100,205,349	125,084,705	3,859,278,072	6,925.5	55.7
137,817,721	516,188,643	4,421,683,899	6,900.3	64.1
119,477,588	160,207,318	4,259,391,529	7,292.9	58.4
193,691,016	355,752,798	5,038,900,513	7,579.4	66.5
171,104,512	203,059,925	5,076,263,699	8,354.0	60.8
202,690,580	262,173,253	5,217,253,653	9,206.5	56.7
241,229,408	254,347,851	5,476,371,129	9,797.5	55.9
309,226,050	563,416,761	5,911,041,019	12,156.3	48.6
360,075,768	746,007,653	6,607,386,071	14,980.5	44.1
521,099,994	234,989,552	7,325,138,885	17,260.1	42.4
321,882,875	142,312,545	7,757,286,802	19,128.7	40.6
382,230,425	292,932,556	9,487,950,806	17,608.9	53.9
624,573,049	339,275,088	10,759,828,029	21,040.0	51.1
983,567,115	371,675,743	12,140,338,314	20,954.0	57.9
982,543,831	418,097,328	12,579,838,897	20,048.6	62.7
867,281,554	468,388,429	11,661,975,460	20,574.0	56.7
917,550,618	339,488,241	11,574,908,981	27,331.1	42.4

Appendix

PROPOSALS AND POLICIES

Sr. No.	*Year ending*	*Proposals for sum assured not materialised (in millions)*	*Policies being not taken-up*	*Forfeiture*	*Lapse*
(1)	(2)	(3)	(4)	(5)	(6)
		Rs.	Rs.	Rs.	Rs.
1.	1.9.56 to 31.12.57	372.9	—	—	—*
2.	31.12.58	413.6	9,839,000	1,037,612.000	—*
3.	31.12.59	553.9	5.360.000	1,370,909,000	—*
4.	31.12.60	687.2	6.000,000	1,624,770.000	—*
5.	31.12.61	920.6	5,458,250	2,132,668,257	—*
6.	1.1.62 to 31.3.63	899.8	9,802,008	3,296,905,997	—*
7.	31.3.64	527.7	10.453,655	3,095,834,353	—*
8.	31.3.65	438 .2	8,877,706	3,320,599,829	—*
9.	31.3.66	369.7	9,943,287	3,600,063,336	—*
10.	31.3.67	442.0	12,905,233	4,034,651,466	—*
11.	31.3.68	563.6	12,682,752	4,125,816,510	—*
12.	31.3.69	497.6	16,518,601	4,237,971,219	—*
13.	31.3.70	527.5	26,616,563	4,426,677,307	—*
14.	31.3.71	496.2	23,885,970	4,518,312,238	—*
15.	31.3.72	471.1	37,373,500	4,992,829,150	—*
16.	31.3.73	657.4	49,598,275	3,682,723,939	2,179,318,125
17.	31.3.74	689.2	61,040,166	4,148,282,310	2,394,568,906
18.	31.3.75	864.1	69,674,250	4,782,089,388	3,096,924,197
19.	31.3.76	950.9	76,176,800	5,528,048,577	3,240,854,515
20.	31.3.77	969.6	87,576,650	6,932,738,100	2,795,180,706
21.	31.3.78	801.5	71.728,250	10,305,969,498	—+
22.	31.2.79	538.8	58,042,150	9,729,463,327	—+
23.	31.3.80	775.9	68,920,000	9,473,110,122	—+

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WHICH GO OUT OF THE BOOK

Policies Surrendered	*By Change & Decrease*	*Total col. 3 to col. 8*	*New Business written on individual lives (in millions) secured in India*	*Percentage col. 9 to col. 10*
(7)	(8)	(9)	(10)	(11)
Rs.	Rs.	Rs.	Rs.	
—	—	—	3,280.8	—
50,701,000	318,835,000	1,830,587,000	3,374.5	54.2
38,148,000	226,198,000	2,194,515,000	4,176.9	52.5
56,005,000	211,115,000	2,585,090,000	4,860.2	53.2
49,704,695	248,185,100	3,356,616,302	5,987,9	56.1
109,225,105	903,829,373	5,219,562,483	7,347.2	71.0
100,205,349	125,084,705	3,859,278,072	6,925.5	55.7
137,817,721	516,188,643	4,421,683,899	6,900.3	64.1
119,477,588	160,207,318	4,259,391,529	7,292.9	58.4
193,691,016	355,752,798	5,038,900,513	7,579.4	66.5
171,104,512	203,059,925	5,076,263,699	8,354.0	60.8
202,690,580	262,173,253	5,217,253,653	9,206.5	56.7
241,229,408	254,347,851	5,476,371,129	9,797.5	55.9
309,226,050	563,416,761	5,911,041,019	12,156.3	48.6
360,075,768	746,007,653	6,607,386,071	14,980.5	44.1
521,099,994	234,989,552	7,325,138,885	17,260.1	42.4
321,882,875	142,312,545	7,757,286,802	19,128.7	40.6
382,230,425	292,932,556	9,487,950,806	17,608.9	53.9
624,573,049	339,275,088	10,759,828,029	21,040.0	51.1
983,567,115	371,675,743	12,140,338,314	20,954.0	57.9
982,543,831	418,097,328	12,579,838,897	20,048.6	62.7
867,281,554	468,388,429	11,661,975,460	20,574.0	56.7
917,550,618	339,488,241	11,574,908,981	27,331.1	42.4

NOTES : 1. Sum assured reduced under paid-up policies are not shown separately in the annual reports for the years ending 31.12.57 to 31.3.72 (1st to 15th Report). These were included under the heading. "Forfeiture" Col. (5).

2. Sum assured reduced under paid-up policies for years ending 31st March, 1978, 1979 and 1980 are included under "Forfeiture" col. (5).

3. Bonuses entitled to but not vested in policies are not mentioned separately.

VESTED BONUSES LOST DURING THE LAST FIVE YEARS

Year	*Policies being not taken up*	*Forfeiture & Lapse*	*Policies Surrendered*	*By Change & Decrease*
31.3.76	93,402	161,613,801	102,741,878	76,188,039
31.3.77	6.914	84,132,693	164,003,402	64,002,458
31.3.78	148.206	256,213,695	185.179,953	90,542,187
31.3.79	18,882	143,664,102	166,301,513	48,252,217
31 3.80	125,342	269,156,355	178.336,941	38,746,654

Policyholders lose already vested bonuses and in addition, the bonuses entitled to but not vested are also lost. The amount of these which are substantial are not published separately.

SOURCE: 1. *Indian Insurance Year Book (1960 & 1961).*

2. *1st to 23rd Annual Reports and Accounts of LIC.*

3. *9th to 12th Valuation Reports.*

EXPENSES OF MANAGEMENT (WITHIN INDIA)

(In Rupees)

Sr. No.	Expense	31.12.57	31.12.58	31.12.59	31.12.60	31.12.61	1.1.62 to 31.3.63	31.3.64	31.3.65	31.3.66	31.3.67	31.3.68	31.3.69	31.3.70	31.3.71	31.3.72	31.3.73	31.3.74	31.3.75	31.3.76	31.3.77	31.3.78	31.3.79	31.3.80
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)
A. 1.	Commission to Insurance Agents	68,038,528	61,365,022	76,652,415	88,464,589	104,399,574	135,621,043	130,202,304	139,659,312	151,947,650	162,377,037	174,667,316	196,055,795	214,676,876	250,671,783	307,369,002	361,156,745	419,353,960	449,393,238	517,536,752	549,527,612	546,188,696	610,011,697	708,675,563
B. 2*.	Allowances and Commissions	1,249,979	799,418	150,183	146,207	706,264	257,529	174,933	175,194	122,554	105,784	105,146	83,836	95,892	112,350	115,236	618,207	1,132,029	1,529,628	1,936,471	1,948,958	1,919,493	2,254,740	2,898,577
3.	Compensation to special and Chief Agents	1,301,440	604,386	475,493	467,240	405,173	364,028	330,666	325,576	258,553	68,469	29,089	Cr. 1,165	245	6,044	Cr. 4,733	—	Cr. 321	Cr. 562	Cr. 8,067	—	—	—	—
4.	Salaries, etc., including allowances	105,435,452	97,082,342	105,732,027	122,673,942	137,869,912	204,028,197	182,690,603	213,426,009	242,239,027	268,900,553	294,233,910	329,720,886	379,506,914	394,176,952	461,431,168	506,358,947	640,949,502	822,804,861	912,934,057	833,985,508	992,100,573	1,050,440,810	1,076,077,097
5*.	Gratuity payments and retiring allowances	875,059	827,584	1,163,452	1,520,653	1,883,169	2,456,164	2,613,405	2,759,175	3,945,058	4,628,413	5,419,094	6,310,259	6,853,217	11,512,770	10,077,875	10,786,088	12,139,538	11,184,681	13,589,342	9,907,266	—	—	—
6*.	Corporation's Contribution to staff provident and pension funds	4,783,736	5,382,580	5,607,788	6,193,821	6,482,661	9,856,130	8,796,356	9,711,340	10,190,268	10,493,854	11,713,218	11,166,979	12,499,905	18,221,768	18,158,522	19,948,198	24,117,691	25,909,953	31,577,776	30,880,257*	31,531,787	30,884,557	49,128,067
7.	Travelling Expenses	2,792,690	3,680,876	3,696,430	4,630,632	5,528,175	9,187,429	7,699,451	8,125,846	8,895,659	9,681,146	10,472,787	9,659,143	9,667,073	10,271,733	17,816,400	15,344,093	16,718,637	17,873,761	18,765,801	18,451,468	17,937,006	17,586,539	19,755,619
8.	Umbrellas, Uniforms and washing charges	—	—	—	—	—	—	399,249	424,700	479,560	503,070	570,648	539,415	595,461	699,701	—	—	—	—	—	—	—	—	—
9.	Canteen Expenses and Watermen's Charges	—	—	—	—	—	—	90,458	104,512	122,098	151,843	147,105	180,685	163,295	178,033	—	—	—	—	—	—	—	—	—
10.	Staff Medical, Recreation and other Expenses	—	—	—	—	—	—	93,890	279,740	2,545,112	2,856,743	3,054,465	2,993,378	2,987,272	5,365,532	5,445,534	9,287,825	6,829,701	7,473,502	7,894,879	8,361,428	8,294,799	9,314,727	11,638,098
11.	Carriage and Freight, etc., including Packing Materials	—	—	—	—	—	—	826,150	995,554	1,128,476	1,124,615	1,203,842	848,838	732,309	840,746	1,165,225	1,295,748	1,305,557	1,623,402	1,625,882	1,479,892	1,383,725	1,536,484	1,804,177
C. 12.	Telephone charges, etc.	—	—	—	—	—	—	1,529,672	1,678,123	1,935,857	2,385,970	2,396,209	2,560,959	2,777,422	3,302,680	4,214,160	5,117,966	6,041,942	7,480,150	7,324,899	8,601,444	8,846,620	9,005,489	9,783,970
13.	Electricity charges	—	—	—	—	—	—	1,278,953	1,432,598	1,541,043	1,803,921	1,883,367	1,852,036	2,337,818	2,331,840	2,586,112	2,976,908	3,694,179	4,538,088	4,846,624	5,948,789	5,999,014	6,768,670	7,583,275
14.	Tabulating Machines' rental and service charges	—	—	—	—	—	—	4,587,761	5,226,705	6,170,265	7,147,874	9,181,366	10,421,811	9,462,400	10,251,212	11,967,571	13,042,454	13,417,073	16,940,753	17,829,255	18,616,801	18,786,783	14,041,642	16,618,419
15.	Repairs to furniture	—	—	—	—	—	—	600,679	663,530	817,140	1,097,887	1,367,948	1,021,822	923,339	1,248,389	1,751,377	1,990,197	2,079,664	2,686,897	3,406,204	2,756,024	3,247,483	3,232,971	3,651,103
16.	Office upkeep, cleaning and shifting expenses	—	—	—	—	—	—	303,061	397,981	429,533	389,346	384,548	521,091	467,985	450,424	—	—	—	—	—	—	—	—	—

(Continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
17.	Rents for offices belonging to and occupied by corporation	2,318,216	2,366,125	2,734,645	3,414,635	3,558,733	4,882,702	4,581,866	5,905,235	6,512,553	6,949,979	8,200,848
18.	Rents of other offices occupied by Corporation	1,913,305	1,421,637	1,492,354	1,671,234	1,905,034	2,954,114	2,574,696	2,770,452	2,809,716	2,896,286	2,918,237
19.	Depreciation on Furniture, office equipment, vehicle, etc.	1,886,963	1,029,924	1,147,448	1,527,610	2,143,284	4,848,957	4,735,544	4,372,946	4,732,918	5,397,609	5,759,251
20.	Subscription to journal, etc., and binding charges	—	—	—	—	—	—	196,729	185,274	193,969	228,659	249,529
D.21.	Medical fees	8,581,932	8,417,249	11,086,218	11,638,030	9,732,251	10,166,178	9,167,534	9,322,991	10,070,931	8,967,286	9,278,759
E.22.	Law Charges	532,908	731,060	571,792	595,046	638,170	843,766	670,508	754,171	744,168	644,597	863,676
F.23.	Fees to members of Corpn.	9,635	14,250	14,075	12,471	15,533	21,284	17,216	22,024	25,745	21,630	18,242
G.24.	Auditors' Remuneration	307,947	230,242	320,668	321,472	322,707	368,858	370,517	392,866	391,358	420,304	410,095
H.25.	Training Centre Expenses	—	—	—	—	—	—	104,097	117,346	69,891	90,391	91,085
I.26.	Advertisement	838,912	1,090,356	1,994,222	1,342,900	2,042,022	3,483,421	3,388,841	2,726,684	2,374,776	2,387,071	1,889,826
27.	Printing and Stationery	6,886,323	5,845,885	5,988,288	6,482,032	7,463,612	10,753,846	8,912,609	8,217,919	8,457,660	8,798,761	9,644,090
28.	Postage, Telegrams and Receipt Stamps	5,548,401	5,393,031	6,091,868	6,600,697	7,380,464	10,499,966	9,526,319	9,741,766	9,708,753	9,840,074	9,977,454
29.	Policy Stamps	1,131,627	1,322,255	1,625,204	1,932,696	2,465,761	3,198,507	2,839,461	2,827,029	3,196,259	3,051,551	3,275,089
30.	Bank charges, etc.	1,505,948	868,575	734,399	790,736	828,396	1,192,404	942,477	1,018,392	1,163,065	1,061,697	1,073,905
31.	Cash in Transit, etc., Insurance premia	—	—	—	—	—	—	109,699	122,191	114,159	131,594	87,044
J.32.	Miscellaneous Expenses	—	—	—	—	—	—	1,057,606	1,206,674	1,353,564	1,709,000	1,342,528

(1)	(2)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(25)
17.	Rents for offices belonging to and occupied by corporation	7,233,352	7,983,805	9,101,225	10,038,520	10,219,946	12,707,273	16,543,461	17,396,293	17,589,111	20,069,133	23,401,986	24,354,526
18.	Rents of other offices occupied by Corporation	2,905,254	3,040,289	2,862,103	3,291,810	4,237,084	5,121,751	5,565,064	6,463,290	6,952,376	7,125,262	7,419,033	8,303,048
19.	Depreciation on Furniture, office equipment, vehicle, etc.	5,781,742	5,374,185	5,262,882	5,273,582	5,384,752	5,862,839	6,557,216	6,908,135	7,473,652	7,655,204	9,923,702	10,056,439
20.	Subscription to journal, etc., and binding charges	259,738	259,456	273,352	—	—	—	—	—	—	—	—	—
D.21.	Medical fees	9,755,854	9,799,397	10,025,266	14,227,359	16,423,898	17,987,704	16,743,982	18,739,551	18,720,161	18,074,170	17,848,397	21,435,797
E.22.	Law Charges	894,128	1,008,438	794,539	605,186	727,646	1,026,065	886,569	1,054,739	986,408	1,096,042	1,025,850	1,230,945
F.23.	Fees to members of Corpn.	19,389	20,853	17,986	14,943	18,129	18,230	18,135	28,098	17,502	13,000	15,300	9,750
G.24.	Auditors' Remuneration	491,227	493,189	486,267	489,709	490,554	533,574	595,499	650,486	752,518	7,59,000	7,91,004	777,059
H.25.	Training Centre Expenses	112,085	1,150,042	1,237,034	—	—	—	—	—	—	—	—	—
I.26.	Advertisement	2,225,196	3,159,729	3,043,049	3,315,792	4,056,843	4,807,475	5,881,179	4,942,278	7,763,915	5,991,979	6,933,572	9,928,055
27.	Printing and Stationery	10,340,299	9,684,989	11,029,690	13,596,500	15,504,929	15,537,360	23,324,795	27,354,772	26,532,381	24,365,291	25,494,655	29,863,100
28.	Postage, Telegrams and Receipt Stamps	12,764,775	13,660,174	15,456,009	18,482,118	21,339,934	16,828,157	19,686,651	20,982,029	25,011,451	23,511,285	26,344,217	28,024,657
29.	Policy Stamps	3,762,551	4,121,172	5,063,838	6,304,647	7,669,574	8,696,209	7,704,845	16,417,227	9,280,967	13,372,430	14,123,557	14,433,285
30.	Bank charges, etc.	1,225,105	1,299,108	1,362,188	1,616,417	1,866,317	2,036,534	2,205,521	2,793,737	3,039,329	3,187,087	3,222,614	3,514,578
31.	Cash in Transit, etc., Insurance premia	71,907	161,671	162,620	164,767	187,979	187,548	170,885	209,252	305,178	42,207	302,344	286,669
J.32.	Miscellaneous Expenses	1,523,964	1,743,525	2,650,190	5,588,880	6,595,384	8,131,429	11,085,480	11,227,239	12,178,479	12,406,925	13,450,086	17,964,704

EXPENSES OF MANAGEMENT (WITHIN INDIA)

Sr. No.	Expenses	31.3.77	31.3.78	31.3.79	31.3.80
(1)	(2)	(3)	(4)	(5)	(6)
	Insurance Agents				
(2A)*	Gratuity+Term Assurance	2,504,046	2,037,239	2,210,324	2,168,604
	Staff Provision for				
(5A)*	Accruing gratuity liability (including contribution towards past liabilities)	52,986,872 including 29,154,236 towards past liability	29,154,236 Prov. for past gratuity liability	35,875,569 including 29,154,236 towards past liability	49,150,671 including 29,154,236 towards past liabilities
(6A)*	Contribution towards deficit of LIC (Oriental) Pension fund.	2,986,000	—	—	—

*Expenses under above three headings appeared in Annual Reports for 1977, 1978, 1979 and 1980.

SOURCE: *1st to 23rd Annual Reports and Accounts of LIC.*

Appendix 23

UNDERWRITING ACTIVITIES

(in millions rupees)

Sr. No.	*Year ending*	*Preference shares*	*Ordinary shares*	*Debentures (other companies)*	*Debentures and bonds**	*Debentures of oil India Ltd.*	*Total*	*No. of new issues*
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	
1.	1.9.56 to 31.12.57	12.0	4.4	2.3	—	—	18.7	21
2.	31.12.58	4.3	1.0	22.1	—	—	27.4	19
3.	31.12.59	7.0	2.1	3 0	—	—	12.1	9
4.	31.12.60	5.1	6.8	11.5	—	—	23.4	14
5.	31.12.61	10.3	11.9	53.8	—	—	76.0	52
6.	1.1.62 to 31.3.63	8.8	10.2	30.2	76.1	7.00	195.3	58
7.	31.3.64	16.1	21.4	32.3	60.2	—	130.0	70
8.	31.3.65	22.6	19.2	69.5	64.1	—	175.4	84
9.	31.3.66	27.9	17.4	30.2	130.5	—	206.1	96
10.	31.3.67	29.6	28.9	47.8	154.5	—	260.8	99
11.	31.3.68	35.9	6.0	36.5	152.6	—	231.1	110

(Continued)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
12.	31.3.69	10.9	10.7	102.5	224.3	—	348.3	95
13.	31.3.70	18.4	16.0	49.5	445.3	—	529.2	103
14.	31.3.71	16.3	8.7	90.0	395.7	—	510.8	92
15.	31.3.72	17.2	12.2	7.5	295.5	—	332.5	113
16.	31.3.73	21.0	10.3	6.7	220.2	—	258.2	82
17.	31.3.74	12.4	8.5	—	263.9	—	284.8	77
18.	31.3.75	13.5	18.9	—	516.5	—	548.9	87
19.	31.3.76	18.7	21.5	2.5	492.5	—	535.2	120
20.	31.3.77	8.0	26.4	9.5	732.3	—	776.12	116
21.	31.3.78	6.8	25.4	—	694.2	—	726.4	85
22.	31.3.79	3.0	42.1	10.0	888.5	—	943.6	78
23.	31.3.80	—	9.4	—	781.4	—	790.8	59

*Debentures and Bonds (of Central Cooperative Land Development Banks, Municipal, Financial Corporations, Port Trust and State Electricity Boards).

SOURCE: *1st to 23rd Annual Reports and Accounts of LIC.*

Appendix 24

STATEMENT OF SHRI M.C. CHAGLA ON 10TH FEBRUARY 1958

This enquiry would have served no purpose whatever if no lessons could be derived from it, I think, if I may say so without presumption, that the following principles seems to be established as a result of a careful consideration of all the materials that have been placed before me:

1. That Government should not interfere with the working of autonomous statutory corporations; that if they wish to interfere, they should not shirk the responsibility of giving directions in writing.
2. That Chairman of corporations like the LIC which has to deal with investments in a large way, should be appointed from persons who have business and financial experience and who are familiar with the ways of the stock exchange.
3. That if the executive officers of the corporation are to be appointed from the civil services, it should be impressed upon them that they owe a duty and loyalty to the Corporation and that they should not permit themselves to be influenced by senior officials of Government or surrender their judgement to them. If they feel that they are bound to obey the orders of these officials, they must insist of these orders being in writing.
4. The funds of the Life Insurance Corporation should only be used for the benefit of policy-holders and not for any extraneous purpose. If they are to be used for any extraneous purpose that purpose must be the larger interest of the country. The public is entitled to an assurance from Government to this effect.
5. In a parliamentary form of Government, Parliament must be taken into confidence by the Ministers at the earliest stage and all relevant facts and materials must be placed before it. This would avoid difficulties and embarrassment being caused at a later stage when

Parliament gets the necessary information from other sources.

6. That the minister must take full responsibility for the acts of his subordinates. He cannot be permitted to say that his subordinates did not reflect his policy or acted contrary to his wishes or directions.
7. That Government should immediately apply to the Corporation Section 27-A of the Life Insurance Act of 1938 modified as circumstances require to carry out the solemn statutory assurance given in the Life Insurance Act.

Appendix 25

STATEMENT MADE BY THE FINANCE MINISTER IN PARLIAMENT ON 25TH AUGUST, 1958

I am placing on the Table of the House a notification which makes applicable to the Life Insurance Corporation certain provisions of the Insurance Act. The House will recall, that Section 43(2) of the Life Insurance Corporation Act, lays down that these provisions would be made applicable to the Life Insurance Corporation, subject to such conditions and modifications as may be specified in the notification. The notification is in pursuance of this requirement.

2. One of the Sections which the notification deals with in Section 27A of the Insurance Act. It is, by now, common knowledge that this Section defines in fairly precise terms the ambit within which an insurer could operate in the matter of investments. By making it applicable to the Life Insurance Corporation, Government is laying down the framework within which the Life Insurance Corporation can similarly operate. In short, this modified Section contains, by and large, the investment policy which the Life Insurance Corporation will follow.

3. There are good reasons as to why the salutary provisions of Section 27A should be retained. Both the freedom given and the restrictions imposed by it have stood the test of time. While ensuring the safety of the policyholders' money the possibility of augmenting profits has also been afforded. For this reason Section 27A has proved satisfactory both to the insurers and the policyholders. We, therefore, have followed these principles subject only to such changes as have become necessary owing to the fact that investments which were previously spread over 240 odd companies are now held by one single Corporation. I may add that in coming to our decision we have consulted both the Corporation and Reserve Bank of India.

4. Under the scheme referred to, the investments of the Life Insurance Corporation will be divided into three broad categories: firstly, the Government and approved securities which generally mean gilt edged securities; secondly, investment approved under this very Section and, thirdly, other

investments. The limitations are that atleast 50 per cent of the total funds should be held in government and *approved securities* and not more than 15 per cent should be held in the form of *other investments*. The result is that about 35 per cent is held in what is known as *approved investments*.

5. To a large extent the modifications suggested in respect of approved investments are of a minor character. It was necessary to make them because of the altered conditions which obtain after nationalisation of Life Insurance. But I shall, in particular, draw attention to the modified Section 27A (4) and 27A (8). While the former enable the maximum limits of holdings of the Corporation in the ordinary shares of the companies to be raised from 10 per cent to 30 per cent of the subscribed ordinary capital (with a further provision for exceeding this limit with the prior approval of the Central Government) the latter modification will permit the Corporation to invest in private limited companies also, with the prior approval of the Central Government.

6. There are certain other matters pertaining to the investment policy of the Life Insurance Corporation which, I feel, are of some importance. I shall mention these briefly.

7. To begin with, I would like to make it quite clear that the Life Insurance Corporation shall always keep in mind the provision of *Section 6(1) of the Life Insurance Corporation Act, which enjoins on it the duty of carrying on its business to the best advantage of the community*. Let me be more specific. Whereas the Life Insurance Corporation will always bear in mind that its *primary obligation is to its policyholders whose money it holds in trust*, and will work as far as possible on business principles, it will never lose sight of the fact that, as the single largest investor in India, it has to keep before it *the interests of the community as a whole*. It will, therefore, invest in ventures which further the social advancement of the country. It will take no parochial view. Its funds are drawn from all over India and they will, as far as practicable considerations allow, be invested for the good of the entire country. Thus there shall be a *studied diversification of its investible funds* which is an essential requirement of any insurer particularly the sole insurer of a country.

8. I next come to the attitude which the Life Insurance

Corporation should adopt in relation to the Stock Markets. There is not the slightest intention that the Life Insurance Corporation should indulge in speculation and thus take advantage of temporary fluctuations in market prices. It must necessarily invest on a long-term basis. But this should not preclude it from certain buying and selling operations when circumstances so warrant. It will actively examine its investment portfolio from time to time and decide whether certain of its holdings are worth keeping, adding to, or disposing of. If, for instance, the Life Insurance Corporation were to sell during periods of boom and to buy during period of depression not only would the Life Insurance Corporation gain but, indirectly, the national interest would be served by evening out the fluctuations in the stock market.

9. Apart from Section 27A, there are various other sections of the Insurance Act which it is obligatory on Government to apply to the Life Insurance Corporation with such modifications and subject to such conditions as may be considered necessary. These sections deal with certain 'returns' and statement of accounts which insurers have to submit to the Controller of Insurance so as to enable the latter to ensure that the interests of the policyholders are safe. These provisions are salutary ones; and it is felt that the Life Insurance Corporation should continue to submit these returns and be governed by the sections in question. This matter has also been considered very carefully in consultation with the Life Insurance Corporation and the modifications made are of a minor character.

10. In conclusion, I would like to add that the investment policy which is before you has taken into account all that has been said on the subject in the recent past. Different schools of thought have advocated application of varying standards. We thus have been able to study and sift the available material and I hope the policy indicated will have the approval of the House.

Appendix 26

INVESTMENTS OF LIFE INSURANCE BUSINESS (IN INDIA) AND (OUT OF INDIA)

(in millions of rupees)

Sr. No.	Year ending	Stock Exchange Securities: Govt. of India, State Govt. and other Approved Securities	Stock Exchange Securities: Municipal Securities not included in col. 3	Stock Exchange Securities: Foreign Govt., Municipal, etc., Securities, shares, debentures of Companies and Co-operatives	Shares & Debentures of Companies and Co-operatives	Investments in Stock Exchange Securities Total in India	Amount due from State Govt. in respect of the Controlled business taken over	Loans to State Electricity Boards	Loans to State Electricity Boards, Guaranteed by Govt.	Loans to State Govts. for Housing Schemes	Loans to Apex Co-operative Housing Finance Societies and other Authorities Guaranteed by Govt.	Loans to State Housing Boards Guaranteed by Govt.	Loans to State Housing Boards	Loans to State Govt. for Financing Housing Cooperatives of Scheduled Castes and Tribes	Loans to Housing and Urban Development Corporation Ltd.	Loans to Municipal Committees Guaranteed by Govt.	Loans to State Govt. for Water Supply Schemes	Loans to Zilla Parishads Guaranteed by Govt.	Loans to Sugar Cooperative Societies Guaranteed by Govt.	Loans to Sugar Cooperative Societies	Loans to Cooperative Spinning Unit	Loans to Industrial Estates and Statutory Corporations for setting up Industrial Estates Guaranteed by Govt.
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)
1.	31.3.71	9,282 4	41.9	231.3	2,202.5	11,526.7	25.2	1742.9	30.0	1258.8	729.5	2.8	—	30.9	—	328.5	17.7	4.4	52 4	—	—	13.4
2.	31.3.72	10,377.6	40.7	235.0	2,290.1	12,708.4	21.7	2121.2	88.5	1374.3	966.5	2.6	—	28.8	—	480.8	19.6	50.7	67.9	—	—	15.4
3.	31.3.73	11,435.2	40.6	235.5	2,345.0	13,820.8	18.2	2630.1	119.0	1474.7	1190.6	57.3	—	26.8	—	691.0	23.8	110.2	73.2	—	—	25.5
4.	31.3.74	12,809.2	40.2	260.2	2,416.5	15,265.8	14.7	3174.3	138.8	1607.3	1319.9	69.1	14.3	24.7	50.0	851.3	23.0	160.4	87.4	—	—	20.6
5.	31.3.75	14,526.2	40.1	268.7	2,489.8	17,056.1	11.2	3722.4	57.0	1032.6	1682.8	55.3	22.5	22.7	150.0	1032.6	22.2	165.3	100.5	—	—	36.1
6.	31.3.76	16,219.2	39.9	239.2	2,544.3	18,803.4	7.7	4197.3	117.8	1851.3	1822.1	51.1	21.3	20.6	300.0	1306.7	21.3	206.4	129.8	4.6	1.8	37.7
7.	31.3.77	18,380.0	39.8	249.4	2,735.3	21,155.1	4.2	4712.4	145.5	1992.2	2110.0	59.1	20.0	18.5	330.0	1574.7	24.3	252.0	153.0	27.5	2.4	30.9
8.	31.3.78	21,174.6	35.4	311.2	2,876.0	24,086.0	0.8	5562.4	14.0	2112.3	2434.8	54.3	18.7	16.5	400.0	1794.7	23.0	282.3	208.1	25.9	2.2	35.6
9.	31.3.79	24,211.6	58.5	310.8	2,955.4	27,225.5	—	6104.1	125.5	2258.2	2723.8	23.4	28.8	14.4	450.0	2027.9	33.0	289.5	216.1	26.9	1.8	58.9
10.	31.3.80†	27,791.7	104.9	339.7	3,135.9	31,032.5	—	6812.9	50.0	2570.7	3183.3	21.6	26.9	12.4	550.0	2391.1	39.6	327.8	270.7	15.2	1.2	78.3

(Continued on back page)

Loans to Statutory Corporation for Setting up Industrial Estates	Loans to an Improvement Trust Guaranteed by Govt.	Loans to Companies	Loans to Companies Guaranteed by Govt.	Loans to an Industrial Co-operative Societies Guaranteed by Govt.	Various loans, House, property and Land in foreign countries.	Loans on Mortgage of excluding Property Loans to State Electricity Boards, Loans to Companies or Co-operatives	Loans to Companies in participation with Banks	Investment in Loans Total in India	Contribution to the initial Capital of the Unit Trust of India	Investment in Stock Exchange securities, in Loans and in Capital of the Unit Trust of India, Total (cols. 7, 32, 33)	House Property and Land	Total out of India (cols. 5 and 29)	Total in India
(24)	(25)	(26)	(27)	(28)	(29)	(30)	(31)	(32)	(33)	(34)	(35)	(36)	(37)
—	4.1	249.3	—	13.4	35.6	324.4	—	4489.8	7.5	16024.1	387.6	266.9	16736.1
—	3.4	249.7	—	—	36.5	363.7	—	5855.0	7.5	18571.0	419.2	271.5	18990.0
—	2.8	259.5	—	—	36.9	421.9	—	7124.2	7.5	20952.2	450.9	272.4	21403.8
6.1	2.1	319.6	10.0	—	36.4	478.1	—	8443.5	7.5	23716.8	477.4	296.6	24194.3
5.5	1.5	640.9	85.0	41.6	30.1	560.9	—	10117.7	7.5	27181.0	504.5	298.8	27685.5
20.0	0.8	628.4	118.8	100.0	34.6	636.1	—	11601.6	7.5	30412.5	549.9	273.8	30962.4
41.4	0.6	834.6	19.6	113.5	41.1	713.1	199.3	13378.8	7.5	34541.4	577.9	290.5	35119.3
39.4	0.4	974.2	55.1	103.5	40.1	769.8	998.7	15926.7	7.5	40020.2	583.1	351.3	40603.3
37.3	0.2	1012.6	74.0	90.5	28.2	813.8	2093.1	18503.8	7.5	45736.8	616.5	339.0	46353.3
33.0	—	1356.9	90.2	75.7	32.0	848.4	2655.4	25256.1	7.5	56328.8	647.2	371.7	56976.0

NOTES :

1. LIC had invested in fixed deposits guaranteed by Government during 1963 to 1968. The deposits varied between 5 and 35 millions of rupees.
2. Investmens in loans for housing schemes to State Governments, Appex Co-operative Housing Finance Societies, State Housing Boards directly or guaranteed by Government have been shown, as far as possible, under appropriate column's Nos. 11, 12, 13 and 14.
3. (*i*) Application moneys for securities and shares, (Rs. 32.7 millions), (*ii*) On insurers' poltcies within their surrender values and ANF advances (Rs. 3546.3 millions), and (*iii*) On personal security (Rs, 0.5 million) have been mentioned in the 23rd Annual Report ending 31-3-80 for the first time. These have not been shown separately as for other items.
4. Investments in foreign countries are given in columns 5 and 29. The total investments out of INDIA are given in column 36.

SOURCE: *14th to 23rd Annual Reports and Accounts.*

Appendix 27

SUMMARY TO THE TOTAL INVESTMENTS IN DEBENTURES, SHARES OF COMPANIES INCLUDING LOANS TO COMPANIES IN LARGE GROUPS AND UNDERTAKINGS REGISTERED UNDER SEC. 26 MRTP ACT 1969

(In millions oj Rupees)

Year ending	*Category of investments*	*Part A large group companies*	*Part B other single large undertakings having assets of Rs. 20 crores or more companies*	*Part C dominant undertakings companies*	*Total investment in undertakings registered under the MRTP Act 1969*	*Total investments in the public limited companies including joint sector companies*	*Percentage to the total investments in the concerns registered under Sec. 26 of the MRTP Act to the total investments in the public limited companies in the private sector including joint sector companies (7/8×100)*
(2)	(3)	(4)*	(5)	(6)	(7)	(8)	(9)
	No. of companies in which LIC has investments	(59)199	10	24	—	—	—

(Continued)

(2)	(3)	(4)*	(5)	(6)	(7)	(8)	(9)
31.1.75	Loans outstanding	242.153	48.100	6.350	296.603	533.562	55.59
	Debentures	443.985	57.296	13.554	514.835	619.984	83.04
	Preference Shares	189.813	12.150	8.417	210.380	404.002	52.07
	Equity Shares	715.166	65.984	31.888	813.038	1395.040	58.28
	Total	1591.117	183.530	60.209	1834.856	2952.588	62.14
	Percentage to the total investments in the Private sector (including joint Sector companies)	53.89	6.21	2.04	62.14	—	—
	No. of companies in which LIC has investments	(59)202	10	25	—	—	—
31.3.76	Loans outstanding	300.353	54.100	8.700	363.153	629,822	57.66
	Debentures	419.573	57.296	12.034	488.903	623.158	78.46
	Preference Shares	195.048	12.085	8.884	216.017	416.444	51.87
	Equity Shares	745.821	65.984	36.174	847.979	1447.674	58.57
	Total	1660.795	189.465	75.792	1916 052	3117.098	61.47
	Percentage to the total investments in the private	53.28	6.08	2.11	61.47	—	—

	sector (including joint sector companies)						
	No. of companies in which LIC has investments	(65)250	14	21	—	—	—
	Loans outstanding	388.305	72.471	3.050	463.826	662.567	69.78
31.3.77	Debentures	432.219	96.771	3.900	532.890	726.734	73.33
	Preference Shares	213.464	14.516	5.081	283 061	417.673	55.80
	Equity Shares	815.478	105.718	28.573	949.769	1437.884	66.05
	Total	1849.466	289.476	40.604	2179.546	3244.858	67.12
	Percentage to the total Investments in the private sector (including joint sector companies)	56.95	8.92	1.25	67.12	—	—
	No. of Companies in which LIC has investments	(70)261	16	20	297	—	—
	Loans outstanding	438.554	67.365	14.00	507.319	751.529	67.51
	Debentures	470.428	108.041	3.500	581.969	791.784	73.50
*31.3.78	Preference Shares	220.846	14.701	7.636	243.183	418.113	58.16
	Equity Shares	884.851	138.829	31.952	1055.532	1528.445	69.06
	Total	2014.679	328.936	44.488	2388.103	3489.871	68.43

(Continued)

(1)	(2)	(3)	(4)*	(5)	(6)	(7)	(8)	(9)
		Percentage to the total investments in the private sector (including joint sector companies)	57.73	9.43	1 27	68.43	—	—
5.		No. of companies in which LIC has investments	(72)290	16	21	327	—	—
		Loans outstanding	365.002	72.525	6.000	443.527	772.815	57.39
		Debentures	542.860	95.771	3.000	641.831	930.640	68.94
	31.3.79	Preference Shares	232.697	13.398	6.671	252.166	432.951	58.24
		Equity Shares	927.993	166.486	39.150	1133.629	1602.639	70.74
		Total	2067.952	348 180	54.821	2470.953	3739.045	66.09
		Percentage to the total investments in the private sector (including joint sector companies)	55.31	9.31	1.47	66.09	—	—
6.		No. of companies in which LIC has investments	(78)283	24	15	322	—	—
		Loans outstanding	473.416	83.836	15.90	573.152	1113.158	51.48

31.3.80	Debentures	586.987	137.648	2 50	727.135	1117.742	65.05
	Preference Shares	254.286	24.476	6.526	285.288	430.107	66.33
	Equity Shares	983.531	168 846	20.157	1172.534	1686.795	69.51
	Total	2298 220	414.806	45.083	2758 109	4347.802	63.44
	Percentage to the total investments in the private sector (including joint sector companies)	52 86	9.54	1.04	63.44	—	—

*The numbers of large groups are mentioned within ( ) in col. 4.

LIC has no investments in Term Loans, Debentures, preference shares and equity shares of companies in the following large groups mentioned against each year.

1975—Caltex, Chowgule, Godrej, James Finlay, Prataplal Bhogilal, Salgaonkar, Sahu Jain, T.V.S. Iyengar, Thackersey and V.S. Dempo.

1976—Ditto as above.

1977—Caltex, Chowgule, Godrej, James Finlay, Prataplal Bhogilal, R.N. Goenka, Salgaonkar, T.V.S. Iyengar, Thackersey and V.S. Dempo.

1978—Central Pulp, Ghia, Godrej, Prataplal, Bhogilal, R.N. Goenka, Ruia, SPIC, Solgaonkar and V.S. Dempo.

1979—Godrej, Prataplal, Bhogilal, Ruia, SPIC, Salgaonkar and V.S. Dempo.

1980—There are no remarks in the Report whether there are any large groups in whom LIC has no investments as have been mentioned in earlier reports.

SOURCE: *18th to 23rd Annual Reports and Accounts of LIC.*

Appendix 28

CASH AT BANKERS ON CURRENT ACCOUNTS, IN HAND AND REMITTANCES IN TRANSIT

Sr. No.	*Year ending*	*At bankers on current account and in hand*	*Remittances in transit*
(1)	(2)	(3)	(4)
		Rs.	Rs.
1.	1.9.56 to 31.12.57	15,45,36,098	84,66,630
2.	31.12.58	15,46,48,203	80,37,744
3.	31.12.59	17,42,63,420	1,55,99,779
4.	31.12.60	9,43,90,515	73,81,684
5.	31.12.61	10,61,70,841	1,32,85,642
6.	1.1.62 to 31.3.63	6,55,34,044	58,26,636
7.	31.3.64	9,99,48,525	90,76,605
8.	31.3.65	9,99,07,074	2,05,62,555
9.	31.3.66	8.90,00,794	1,18,93,311
10.	31.3.67	14,64,85,114	1,99,03,027
11.	31.3.68	18,40,93,864	1,74,11,834
12.	31,3.69	19,24,55,771	1,33,66,596
13.	31.3.70	15,53,78,111	3,23,16,497
14.	31.3 71	15,70,34,825	2,90,69,918
15.	31.3.72	8,17,09,316	1,19,65,515
16.	31.3.73	15,07,55,502	2,44,90,927
17.	31.3.74	6,13,51,492	3,68,90,430
18.	31.3.75	*22,91,013	9,69,09,312
19.	31.3.76	8,49,43,186	8,63,47,112
20.	31.3.77	5,29,02,487	4,93,39,941
21.	31.3.78	6,66,17,228	12,13,09,681
22.	31,3.79	6,01,11,146	17,72,95,089
23.	31.3.80	18,79,06,372	19,77,36,716

*Net of credit balances on certain Bank current accounts.

SOURCE: *1st to 23rd Annual Reports and Accounts of LIC.*

Appendix 29

STATEMENT OF NATIONALISED COMPANIES & LIC BONUS ALLOTTED TO POLICY HOLDERS

Sr. No.	Valuation as on	No Bonus Group Index Nil	Bonus Allotted					
			Group Index No. 1-5	Group Index No. 6-9	Group Index No. 10 (including LIC)	Group Index No. 11-12	Group Index No. 13-14	Group Index No. 15-49
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1.	31.12.57[1]	99	63	35	31	15	—	—
2.	31 12.59	53	23	29	23	64	32	14
3.	31.12.61[2]	53	23	29	24*	64	32	14
4.	31.3.63	53	23	29	24	64	32	14
5.	31.3.65	53	23	29	24	64	32	14
6.	31.3.67	53	23	29	24	64	32	14
7.	31.3.69	53	23	29	24	64	32	14
8.	31.3.71	53	23	29	24	64	32	14
9.	31.3.73	53	23	29	24	64	32	14
10.	31.3.75	53	23	29	24	65+	32	14
11.	31.3.77	53	23	29	24	65	32	14
12.	31.3 79	53	23	29	24	65	32	14

[1]Provisional classification of policies issued by the corporation and by insurers, whose controlled business has been transferred to and vested in the LIC for the purpose of declaring differential bonuses. The rates of bonus are indicated on next page.

[2]The differential bonus regulations of companies whose controlled business was transferred to and vested in the LIC came into force on 15th of October 1961.

*Bharat Life Insurance, which was earlier under an Administrator, was included in the valuation.

+Jupiter General Insurance Co. (all policies) which was earlier under an Administrator, was included in the valuation.

(Continued)

RATE OF BONUS FOR Rs. 1,000 SUM ASSURED PER ANNUM

Sr. No.	*Groups*	*Bonus Index*	*Rate of Bonus*			
			Endowment assurance	*Whole life assurance*	*No. of companies*	*% of policies in the group to total policies*
(1)	(2)	(3)	(4)	(5)	(6)	(7)
			Rs.	Rs.		
1.	Special Group	1.2	16.80	21.00	15	32
2.	Group I	1.0	14.00	17.50	31	49
3.	Group II	0.8	11.20	14.00	35	9
4.	Group III	0.6	8.40	10.50	27	4
5.	Group IV	0.4	5 60	7.00	36	3
6.	Group V	0.0	Nil	Nil	99	3

SOURCE : *1st to 12th Valuation Reports of LIC.*

BIENNIAL BONUS DECLARED FOR CONTROLLED BUSINESS FOR WHOLE LIFE AND

Sr. No.		No. of Companies	31.12.59 & 31.12.61 Whole Life	Endowment	31.3.63 Whole Life	Endowment
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1.	Group Index 49	1	78.40	—	85.75	—
2.	,, 25	1	40.00	32.00	43.75	35.00
3.	,, 23	1	36.80	29.44	40.25	32.00
4.	,, 21	1	33.60	26.88	36.75	29.40
5.	,, 20	1	32.00	25.60	35 00	28.00
6.	,, 19	1	30.40	24.32	33.25	26.60
7.	,, 18	3	28.80	23.04	31.50	25.20
8.	,, 17	1	27.20	—	29.75	—
9.	,, 16	2	25.60	20.48	28.00	22.40
10.	,, 15	2	24.00	19.20	26.25	21.00
11.	,, 14	11	22.40	17.92	24.50	19.60
12.	,, 13	21	20 80	16.64	22.75	18.20
13.	,, 12	28	19.20	15.36	21.00	16 80
14.	,, 11	36[1]	17.60	14 08	19.24	15.40
15.	,, 10	23[2+3]	16.00	12.80	17.50	14.00
16.	,, 9	10	14.40	11.52	15.75	12.60
17.	,, 8	6	12.80	10 24	14.00	11.20
18.	,, 7	8	11.20	8.96	12.25	9.80
19.	,, 6	5	9.60	7.68	10 50	8.40
20.	,, 5	2	8.00	6.40	8.75	7.00
21.	,, 4	6	6.40	5.12	7.00	5.60
22.	,, 3	4	4.80	3.84	5.25	4.20
23.	,, 2	6	3.20	2.56	3.50	2.80
24.	,, 1	5	1.60	1.28	1.75	1.40
25.	,, Nil	53	Nil	Nil	Nil	Nil

[1]Jupiter General Insurance Company (All policies) included in Group Index 11 as on 31.3.75.

[2]LIC included in this group.

[3]Bharat included in Group index 10 as on 31.12 61.

SOURCE: *1st to 12th Valuation Reports of LIC.*

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AND LIC (BONUS PER THOUSAND SUM ASSURED PER ANNUM ENDOWMENT ASSURANCES)

31.3.65 & 31.3.67		*31.3.69 to 31.3.75*		*31.3.77*		*31.3.79*	
Whole Life	*Endowment*	*Whole Life*	*Endowment*	*Whole Life*	*Endowment*	*Whole Life*	*Endowment*
(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
98.00	—	107.00	—	122.50	—	151.90	—
50.00	40.00	55 00	44.00	62.50	50.00	77.50	62 00
46.00	36.80	50.60	40.48	57.50	46.00	71.30	57.04
42.00	33.60	46.20	36.96	52.50	42.00	65.10	52.08
40.00	32.00	44.00	35.20	50.00	40.00	62.00	49.60
38.00	30.40	41.80	33.44	47.50	38 00	58.90	47.12
36.00	28.80	39.60	31.68	45.00	36.00	55.80	44.64
34.00	—	37.40	—	42.50	—	52.70	—
32.00	25.60	35.20	28.16	40.00	32.00	49.60	39.68
30.00	24.00	33.00	26.40	37.50	30.00	46.50	37.20
28.00	22.40	30.80	24.64	35.00	28.00	43.40	34.72
26.00	20.80	28.60	22.88	32.50	26.00	40.30	32.24
24.00	19.20	26.40	21.12	30.00	24.00	37.20	29.76
22.00	17.60	24.20	19.36	27.50	22.00	34.10	27.28
20.00	16.00	22.00	17.60	25.00	20.00	31.00	24.80
18.00	14.40	19.80	15.84	22.50	18.00	27.90	22.32
16 00	12.80	17.60	14.08	20.00	16 00	24.80	19.84
14.00	11.20	15.40	12.32	17 50	14.00	21.70	17.36
12.00	9.60	13.20	10.56	15.00	12.00	18.60	14 88
10.00	8.00	11.00	8.80	12.50	10.00	15.50	12.40
8.00	6.40	8.80	7.04	10.00	8 00	12.40	9.92
6.00	4.80	6.60	5.28	7.50	8.00	9.30	7.44
4.00	3.20	4.40	3.52	5.00	4.00	6.20	4.96
2.00	1.60	2.20	1.76	2.50	2.00	3.10	2.48
Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Appendix 31

LIST OF INSURERS, WHOSE BUSINESS HAS NOT VESTED IN THE CORPORATION BY REASON OF CLAUSES (A), (B), (C), (D), (E), AND (F) OF SECTION 44 OF THE LIFE INSURANCE CORPORATION ACT, 1956

(A) COMPANIES IN LIQUIDATION

Name

1. Affiliated General Assurance Co. Ltd.
2. All India United Assurance Co. Ltd.
3. Ashok Insurance Co. Ltd.
4. Asia Mutual Insurance Co. Ltd.
5. Bhagya Lakshmi Insurance Ltd.
6. Bombay Baroda Assurance Co. Ltd.
7. Calcutta National Mutual Insurance.
8. Chandragupta Mutual Life Assurance Co. Ltd.
9. Famous Life Insurance Co. Ltd.
10. Federal India Assurance Co. Ltd.
11. Genuine Insurance Co. Ltd.
12. Indian Insurance Ltd.
13. Navabharat Insurance Co. Ltd.
14. Paramount Insurance Co. Ltd.
15. Peoples Insurance Co. Ltd.
16. Supreme Mutual Assurance Co. Ltd.
17. Sushil Life and General Insurance Co. Ltd.
18. Trinity Mutual Assurance Co. Ltd.
19. Venus Assurance Co. Ltd.
20. World Wide Assurance Ltd.
21. All India Muslim Civil Employees' Provident Society Ltd.
22. Allied India Provident Insurance Co. Ltd.
23. Anchor Provident Insurance Co. Ltd.
24. Aryan Provident Assurance Ltd.
25. Asiatic Provident Co. Ltd.
26. Associated India (Provident) Insurance Co. Ltd.
27. Backerganj Provident Ltd.
28. Basanti Provident Insurance Co. Ltd.
29. Bharat Gaurab Provident Insurance Co. Ltd.

30. Bharat Kalyan Provident Assurance Ltd.
31. Biswa Bharati Provident Insurance Ltd.
32. Canara Christian Family Provident Fund.
33. Central Asia Provident Insurance Co. Ltd.
34. Central Provident Insurance Co.
35. Citizens of India Provident Insurance Co. Ltd.
36. Delta Provident Insurance Ltd.
37. Deshbandhu Provident Insurance Co. Ltd.
38. Deshkalyan Provident Co. Ltd.
39. Eastern Provincial Provident Assurance Ltd.
40. Eastland Provident Insurance Ltd.
41. Economic Provident Insurance Co. Ltd.
42. European and Anglo-Indian Family Provident Society.
43. Forward Provident Insurance Co. Ltd.
44. Grihalakshmi Insurance (Provident) Ltd.
45. Independent Provident Insurance Co. Ltd.
46. India Amicable Provident Insurance Co. Ltd.
47. Indian Posts and Telegraphs Union Provident Society Ltd.
48. Indian Posts and Telegraphs Workers Mutual Provident Society of Lahore.
49. Industrial and Provident Insurance (India) Ltd.
50. International Provident Assurance Ltd.
51. Maharashtra Provident Insurance Co. Ltd.
52. Mukund Provident Insurance Co. Ltd.
53. New Ideal Provident Insurance Co.
54. Penfriends Provident Insurance Co. Ltd.
55. Perpetual Provident Insurance Co. Ltd.
56. Premier National Provident Ltd.
57. Provident Insurance Home (India) Ltd.
58. Punjab Provident Insurance Ltd.
59. Ratnagar Provident Insurance Ltd.
60. Real Indian Provident Insurance Ltd.
61. S.P.G. Telugu Church Widows' Provident Fund.
62. Salem Provident Society Ltd.
63. Sebak Provident Insurance Co. Ltd.
64. Substantial Provident Insurance Co. Ltd.
65. Sun of India Provident Insurance Co. Ltd.
66. Traders' Provident Insurance Co. Ltd.
67. United Common Provident Insurance Ltd.

68. Workers Provident Insurance Ltd.

(B) COMPANIES COVERED BY SECTION 2E OF THE INSURANCE ACT, 1938. (NON-INDIAN INSURERS WHO CEASED TO ENTER INTO NEW CONTRACTS BEFORE 1ST JULY, 1939)

Name

1. Royal London Auxiliary
2. Standard Life Assurance Co.
3. National Mutual Life Association of Australasia.
4. Confederation Life Association.
5. Manufacturers Life Insurance Co.
6. Great Eastern Life Assurance Co.

(C) ADMINISTRATOR-MANAGED COMPOSITE INSURANCE COMPANIES

Name

1. Bharat Insurance Co. Ltd.
2. Jupiter General Insurance Co. Ltd.

(D) POST OFFICE LIFE INSURANCE FUND

(E) APPROVED SUPERANNUATION FUND (WHICH WAS REGISTERED AS AN INSURER UNDER THE INSURANCE (ACT) AS DEFINED IN SECTION 58N (A) OF THE INDIAN INCOME-TAX ACT, 1922

1. Methodist Annuitant Society for India, Burma and Ceylon Ltd.

REMARKS:

There are several other funds which were exempted from the Insurance Act of 1912 as well as the Insurance Act of 1938 and presumably have been exempted under Sub-section(e) of Section 44 LIC Act.

1. Indian Civil Service Annuity Fund.
2. Indian Civil Service Family Pension Fund.
3. Bengal Uncovenanted Service Family Pension Fund.
4. Bombay Uncovenanted Service Family Pension Fund.
5. Bengal and Madras Service Family Pension Fund.
6. Indian Military Service Family Pension Fund.
7. [illegible] Military Widows' Fund

8. Madras Military Assistant Surgeons' Fund.
9. Bengal Civil Fund.
10. Madras Civil Fund.

There are several other State run insurance departments which were in existence on the appointed day and have been exempted from the operations of the Insurance Act, 1938 and also not brought within the purview of the LIC Act under Sub-section(f) of Section 44. They are enumerated below:

1. Andhra Pradesh Government Life Insurance Department, Hyderabad.
2. Government of Jammu and Kashmir State Insurance Fund.
3. Karnataka Government Insurance Department, Bangalore.
4. Kerala State Government Life Assurance Department.
5. Directorate of Insurance, Maharashtra, Bombay.
6. State Insurance Scheme of Rajasthan, Jaipur.
7. Uttar Pradesh State Insurance and Endowment Assurance Fund Scheme.

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